



ECONOMIC NEWSLETTER

Russian Research Center

Harvard University

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ECONOMIC RESULTS FOR FIRST THREE QUARTERS OF 1989

(Million tons unless otherwise indicated)

Product	Jan-Sept 1989 Output	Jan-Sept 1989 as % of Jan-Sept 1988
Meat	9.6	100.9
Sausage products	2.9	102.
Butter	1.4	100.3
Wholemilk products	25.9	103
Edible fish products	4.3	96
Margarine products	1.1	96
Granulated sugar	6.0	111
Confectionary	3.7	105
Canned foods (bil. cans)	15.5	100.2
canned fruit/vegs	11.0	99.4
Nonalcoholic beverages (million dekaliters)	512	100.2
Alcoholic beverages (million dekaliters)	92.8	124
Cigarettes (billions)	252	95
Textiles (bil. m ²)	9.8	100.7
Footwear (mil. pairs)	596	101
Television sets	7.3	103
Refrigerators/freezers	4.8	103
Radios	6.3	105
Tape recorders	4.2	102
VCRs (thousands)	88.9	175
Sewing machines (thousands)	1,107	94
Washing machines	4.9	109
Vacuum cleaners	3.7	104
Furniture (bil. rubles)	7.2	106
Motorcycles (thousands)	713	98
Cars (thousands)	907	94
Paper (mil. rubles)	660	107
Household soap (thousand tons)	516	109
Toilet soap (thousand tons)	220	106

Industrial Production Figures for the First Three Quarters of 1989

As so often happens in the Soviet Union when the economic news is bad, there is no news. In this case there is a little news, but it is certainly restricted. We have already reported that there are no data available on a monthly basis, as used to be the case a year ago. Now it looks like they are holding back on some of the quarterly data as well. In fact, to some extent it is a throwback to the early Khrushchev and even late Stalin periods when we were not given base figures. For example, in this current report, we are told that crude oil and gas condensate output is 12 million tons lower than it was last year, but we are not given last year's figure. That means we have to go back and look at last year's figure, which was 468 million tons. That means that output for the first three quarters of 1989 was 456 million tons. They did the same thing with coal. Output fell 24 million tons. That would make up for the first nine months of 1989 a total of 555 million tons. Similarly, gas output, which rose 4% as of September 30, totalled 587 billion cubic meters.

What this does indicate, however, is that output has fallen. Oil output is down 3%, coal is down 4% although for the month of September alone, it was down 5%, reflecting the strikes in the coal industry and also the disruption in railroad transportation. Freight cars are being held back, in part by strikes and in part by ethnic feuding. The average number of people out on strike in the month of September was 100,000 a day. That is up from 34,000 for

the whole nine-month period.

There are other problems as well. Housing construction is down, and there has been a drop in the availability of many consumer goods. Retail sales of the following products have fallen: bread, cheese, fish, potatoes, vegetables, fruit, tennis shoes, bicycles, automobiles. Fruit sales are down 10% and sugar sales are down 12%. Rationing for meat has been introduced in 33 oblasts. There is also rationing for cooking oil and tea. To compensate for some of these difficulties, grain imports were increased 15% and sugar imports increased 23%.

In several cases, there has been an increase in retail trade. However, because the income of the population is up 16%, while industrial output is only up 0.3%, there has been a growth of inflation and the resulting shortages.

There does seem to be some good news. The number of people involved in the cooperative and private trade now exceeds 3.6 million. Similarly, as of October 1, there were 936 joint ventures, the number having almost doubled from the first of the year.

While that certainly helps, at the same time it is also necessary to remember that there are signs of a breakdown in the operation of the economy. For example, there are now reports that workers in the steel industry have been refusing to ship rails to the Communications Ministry because railroad workers were not delivering raw materials to the steel industry. As a consequence, the Prime Minister has had to intervene in an effort to break up the deadlock. What the statistics seem to show, especially those for September, is that there has been a gradual decline from last year and that the pace seems to be accelerating.

CONFERENCE ON JOINT VENTURES, TRADE AND FOREIGN INVESTMENT IN THE USSR

The Russian Research Center and the Washington, D.C. law firm of Heron, Burchette, Ruckert & Rothwell co-sponsored an all-day conference on US-Soviet joint ventures at Harvard on November 13. Panelists included lawyers, businessmen, economists, government officials, and scholars from the United States, the Soviet Union, and West Germany.

The Soviet visitors discussed the changes underway in their society, such as the formulation of new legislation concerning joint ventures, cooperatives, taxation, property, and environmental protection, and the modernization of ministries. They cited their general lack of experience at this early stage but outlined a number of measures which have and will be taken in the attempt to create a "new economic environment" with appeal to foreign companies contemplating setting up ventures in the Soviet Union. To date there are close to 1,000 joint venture agreements in various stages of development; approximately 100 of these are fully operational.

The Western businessmen and lawyers on the panels, like their Soviet counterparts, emphasized the changing atmosphere and the magnitude of the opportunities for Western investors. They shared their own experiences with Soviet partners and advised those seeking to enter into joint arrangements with the Soviets on successful strategies, potential difficulties and challenges, and future benefits such as the creation of free economic zones.

The predominant mood at the conference was one of optimism and enthusiasm. All of the speakers agreed that today's climate is a propitious one for the establishment of joint ventures between the Soviet Union and Western partners, offering numerous advantages to both sides, and urged increased cooperation in the future.

Nationalities and Challenges for the Next Five Months

On November 21, 1989, Dr. Andrus Pork of the Estonian Academy of Sciences, presented a general seminar at the Russian Research Center.

Dr. Pork prefaced his remarks by stating that while his comments would most immediately address developments in Estonia and the Baltic republics, the stages he will outline are to some degree applicable to the other restive republics.

Pork started his talk with a timetable of important events which will soon be taking place: December 1989 through March 1990 will see municipal, local, and parliamentary elections, the Lithuanian Party Congress will take place in December 1989, the Estonian Communist Party Extraordinary Congress will take place in January 1990, and October 1990 will witness the CPSU Congress.

The basic dilemma currently facing the Soviet Union is unity or reform. Either the system remains intact and stagnates or reforms and reconstitutes the political relationships between the periphery and the center.

Mr. Pork stated that he did not believe that republican self-management would work well. Moscow will be too reluctant to award all the rights requested by the republics. However, this economic self-management will serve as a catalyst for further political change. Political leaders will then use this failure to resolve the economic problems to demand more political concessions.

In terms of the political side of nationalist developments, Professor Pork identified a number of stages through which a universal pattern of national awakening can be identified. The process starts with the identification and politization of environmental issues. At the second stage, the emancipation of political thinking takes place and republican newspapers openly criticize the local party apparatus. In

response to this, the party then launches an attack on the new thinkers, but eschews violence against the population. During the popular front stage, popular reform organizations mature and begin to build constituencies of like-minded individuals. The official response period features the replacement of the local party leadership. A new reformist leadership is installed and this gives the communist party breathing space. The party accepts the basic ideas of the popular front and in fact, this gives the party some momentum for a short period of time. The current stage within the dynamic features efforts to incorporate nationalist ideals into the republic's legal structure.

Developments over the next five months are difficult to predict. Movements within each republic have their own agendas. Some have strong secessionist tendencies. Others demand greater sovereignty and rights, and autonomous republics and oblasts seek upgraded political status.

In Estonia, emphasis is being placed on the historical dimensions, focusing on the events of 1939-40. Results of a commission of inquiry (published in *Sovetskaya Estonia* on Oct. 11, 1989) arrive at the conclusion that the 1940 decision to join the Soviet Union was illegal and therefore invalid, and the Estonian parliament now reserves the right to work for Estonian self-determination.

Dr. Pork concluded his remarks with the following observations. If democracy develops (a 50-50 chance, he speculates), the upcoming elections will prove to be the breaking point. It is now impossible to stop the reform process by political means, although it could be halted by force. Within the next six months to a year, political force will not longer be a viable option to stop the reform process.

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YURI CHERNICHENKO VISITS HARVARD

Yuri Chernichenko, newly elected Deputy to the Congress of People's Deputies and a leading agricultural writer, spoke at the Russian Research Center on October 4 about the current state of affairs in the Soviet Union. Chernichenko emphasized that in the four years since the beginning of perestroika, nothing has really changed. He talked about economic stagnation in all of the Soviet republics, with rampant inflation and a crisis of consumer goods, in which it is impossible to predict the availability of various items in the stores from one day to the next.

Chernichenko spoke at some length about the issue of private property, which is being widely discussed at present. He said that nothing concrete can really be achieved in this area while the Party controls everything from the Kremlin to the last kolkhoz. Chernichenko suggested that laws about land and property will be on the agenda before the next Congress of People's Deputies this fall. However, he called the whole issue a "paradox": while the USSR possesses enormous amounts of land, the system has rendered much of that land unproductive. He noted that although spending on agriculture has been twice the amount afforded to the military, Soviet harvests have remained at the same level. Chernichenko stated that the promise of agricultural growth is a myth concocted for the apparatchiks themselves.

He said that while democracy does not yet exist in the Soviet Union, the process of democratization has definitely begun.

BORIS GRUSHIN ADDRESSES RUSSIAN RESEARCH CENTER AUDIENCE

Boris Grushin, affiliated with the Institute of Public Policy Research in Moscow, visited the

Russian Research Center for three weeks in October. On October 10 he delivered a lecture entitled "Perestroika: Public Perception vs. Reality."

As for public perception, Grushin suggested that people's reactions to the process of perestroika can be divided into three groups: those who are in favor of it, those against it, and those who are "waiting," i.e., people who are watching to see how it unfolds but declining to take an active role in the process. The perception of perestroika is greatly colored by the fact that the system of social communications and mass media is abominable. The people do not have access to information, yet they see the economic situation deteriorating, for example, with regard to the worsening consumer goods problem. Another example of this is the ecological situation in the Soviet Union; as people do not yet even understand the scope of the problem they can hardly be expected to know what to do about it.

Grushin said that the declining circumstances of daily life and the upsurge in negative phenomena such as crime, assault, rape, bribery, and burglary, to name a few, translate into negative attitudes towards the supposed solution offered by perestroika. The people experience confusion, disillusionment and feelings of helplessness, and uncertainty about the promises of political and economic reform. He said that some people have gotten angry, and others have simply adopted a passive stance. He ended this portion of his lecture with the statement that the people perceive themselves as a traditional, feudal society that has been pushed abruptly into the twentieth century.

As for the reality of the process, Grushin stated that the USSR comprises a society which has exhausted itself, i.e., that it is a totalitarian society that has reached an "end" and the people have felt this. He called the restructuring process irreversible, but concluded that he could not give a fair assessment of the process at this stage.



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Soviet Balance of Trade for the First Half of 1989

After omitting the balance of trade figures for the first quarter of 1989, the Soviets have now released figures for the first six months. They reflect continuing problems in the Soviet economy. While the Soviet Union has increased its trade surplus with Western Europe and Japan, its overall trade balance has suffered, largely as a result of a sharp increase in agricultural imports, particularly from the United States. Thus as the table indicates, the trade surplus with Western Europe and Japan rose to approximately 300 million rubles whereas last year at this time there was almost no surplus. At the same time, the overall trade deficit encompassing the grain exporting countries has risen to 2.3 billion rubles, the highest that it has been since 1981. This is caused in large part by a jump of 700 million rubles in imports from the United States. This makes the figure of imports from the United States for the first six months of 1989 the highest it has been.

Clearly, this complicates Gorbachev's economic difficulties. The Soviet Union has now begun to import more consumer goods, which presumably will lead to an increase in imports from Western Europe and Japan in the remainder of the year. Some of those imports may not show up in this particular table because many of the purchases are coming from Third World countries. There is every reason to believe, however, that because of the increase

in the Soviet trade deficit the Soviet foreign debt this year will increase significantly.

ARDEN HOUSE 1990

The theme for the 1990 Arden House Conference on American-Soviet Relations will be "Gorbachev: The First Five Years." The conference is scheduled for April 6-8, 1990 and will be held at Arden House, the former country estate of Ambassador Averell Harriman.

Sponsored jointly by Harvard's Russian Research Center and the Harriman Institute of Columbia University, the Arden House conference is one of the premier conferences examining American-Soviet relations. Now in its fourteenth year, the conference attracts participants in the fields of business, government, education and research from throughout the world.

This year's conference panels are quite diverse and include: democratization, foreign policy, economic performance, joint ventures, ruble convertibility, congressional views, the waiver of Jackson-Vanik, and Eastern Europe. Confirmed panelists include Adam Ulam, Director of the Russian Research Center; Robert Legvold, Director of the Harriman Institute; Timothy J. Colton, Professor of Government, Harvard; Alexander Vershbow, Director, Office of Soviet Union Affairs, U.S. Department of State; Marshall Goldman, Associate Director of the Russian Research Center; Rick Ericson, Professor of Economics, Columbia; Congressman Les AuCoin; Dennis Kloske,

U.S. Under Secretary of Commerce for Export Administration; Ambassador Warren Zimmermann, U.S. Ambassador to Yugoslavia; and Ambassador Mark Palmer, U.S. Ambassador to Hungary.

The final conference program will not be available until January, but we have enclosed an application form for those who might want to register now in order to assure themselves a place at the conference.

Feodor Burlatsky Visits the Russian Research Center

Feodor Burlatsky, noted Soviet political scientist and member of the Congress of People's Deputies, visited the Russian Research Center on December 8, 1989. In a presentation given at the Center, Burlatsky commented on current events in the USSR.

He stressed that the role of Western sovietologists should not be underestimated, not only in analyzing the difficulties facing the Soviet Union, but also in assisting the Soviets in understanding and developing policies for addressing the challenges now facing the system.

Burlatsky pointed out the speed with which changes are being adopted in the Soviet Union. Events are quickly outpacing people's ability to understand them. There are many new questions to be addressed. Burlatsky personally does not like to use the word revolution to describe the changes now underway. As he pointed out, "We know how much our own revolution cost. Tens of millions of lives." He prefers the concept of structural reform, not revolution and recalled de Tocquville's comment, "A person who begins with reform must realize he may end up in revolution."

Gorbachev has begun to implement serious reforms, especially in light of the events underway now in Eastern Europe. The Eastern bloc is quickly moving toward what might be called revolution, in the social sense, particularly

in terms of political culture and people's world views.

What has been achieved thus far? What remains to be done? Initially *glasnost*, the possibility to criticize, was the major achievement. Also important is the creation of new political institutions, such as the parliament. There are deep changes in social opinions and attitudes and the face of society has begun to change. The USSR has moved past the period of stagnation. The bear has stood up on his hind legs. He is tottering, he is afraid of falling into an abyss – either the abyss of Brezhnevism or Stalinism or even the capitalist abyss. But he is standing. That is the main achievement to date.

Burlatsky then addressed the work of the Supreme Soviet. There are unique new possibilities about which members of the 20th Party Congress generation have dreamed for thirty years. Burlatsky has been preparing a draft law on human rights, and on exit and entry to the USSR. Shakhnazarov has worked on the draft law on freedom of the press. Draft laws on informal social organizations and freedom of conscience are also in the works. The draft reform of the legal system now includes discussion of the need for an impartial jury, legal representation from the beginning of the case, and fully independent judges. The draft law on emigration and free movement was drawn up by Shakhnazarov and supported well by the Congress. It is now possible to exert real influence on the changes underway in the legal and political system in the Soviet Union, something impossible to imagine only a year ago.

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SOVIET BALANCE OF TRADE: 1st Half of 1981 through 1989
(million rubles)

Exports from the USSR									Imports to the USSR								
1981	1982	1983	1984	1985	1986	1987	1988	1989	1981	1982	1983	1984	1985	1986	1987	1988	1989
Austria	392	346	271	381	370	286	169	203	258	251	380	481	403	437	312	359	441
Belgium	249	530	501	577	384	280	345	415	268	329	305	271	298	253	197	218	219
U.K.	349	416	502	691	549	591	674	1205	631	354	369	395	392	301	287	320	457
Greece	350	275	173	224	238	102	110	156	71	78	93	64	69	33	21	40	59
Denmark	74	199	157	153	132	69	47	74	151	42	42	51	51	100	46	62	55
Spain	156	77	148	163	299	37	187	288	323	101	148	152	102	107	89	82	99
Italy	1066	1362	1446	1503	1019	757	838	918	498	592	793	679	659	726	860	831	711
Nether.	430	715	895	727	402	290	387	485	344	217	314	132	158	126	140	146	184
Norway	28	37	30	50	56	29	26	31	58	34	53	46	39	46	28	38	54
Germany	1207	2059	1614	2314	1864	1588	1134	1253	1586	1525	1893	1726	1680	1547	1417	1768	1900
France	1082	1168	1140	1238	990	751	689	732	922	727	973	907	1006	685	649	551	643
Swizld	90	181	257	187	182	161	164	152	291	224	211	196	283	270	303	470	513
Sweden	93	159	293	293	235	142	189	206	207	207	145	132	177	148	137	125	172
Japan	407	390	388	409	456	471	449	545	1168	1532	1237	1036	1245	1293	770	966	995
Subtotal	5973	7914	7815	8910	7176	5554	5408	6003	6798	6733	6213	6268	6562	5965	5286	5976	6502
Sub-Balance of Trade										-760	+1701	+2642	+614	-411	+122	+27	+296
USA	57	76	132	139	147	143	102	145	892	1672	878	1272	1764	845	411	1114	1806
Canada	28	14	19	9	8	6	8	9	489	554	651	388	408	266	275	261	246
Australia	8	6	3	6	11	5	5	6	381	411	278	312	402	410	217	189	379
NZ	2	3	1	3	2	2	2	4	96	166	108	31	51	63	50	50	87
Argentina	23	15	15	14	23	38	12	8	1060	840	798	727	769	126	225	181	340
Brazil	5	90	6	68	27	22	30	8	384	275	281	228	169	154	99	63	116
TOTAL	6096	8118	7991	9149	7394	5770	5567	6183	7151	10035	9550	9226	10125	7829	6563	7834	9476
BALANCE OF TRADE										-3939	-2013	-1959	-77	-2731	-2059	-996-1651	-2325
Finland						774	836	749	828				1082	1056	1138	1130	
TOTAL (With Finland included)					6544	6403	6932	7979					8911	7619	8972	10606	
BALANCE OF TRADE (With Finland included)													-2367	-1216	-2040	-2627	

Gorbachev's Dilemma

Pre-summit assessments indicate his sweeping changes are real. But, in the Soviet Union, that notion isn't shared by everyone.

By Marshall I. Goldman

It hardly seems possible that it was only four years ago that Mikhail Gorbachev had his first summit with a U.S. president. In April in the republic of Georgia, and in November 1985 meeting in Geneva, Switzerland, President

Ronald Reagan and General Secretary Mikhail Gorbachev met alone for 5½ hours and changed the course of history. And it was only two years earlier that Soviet negotiators had been ordered out of the Geneva arms talks in protest over the U.S. decision to install Pershing II missiles in Western Europe and to continue the development of the Strategic Defense Initiative.

In that pre-Gorbachev era, there were serious concerns about pre-emptive strikes, and each side had only nasty things to say about the other. The Reagan-Gorbachev meeting marked a change in that atmosphere and became the first of what subsequently became a total of five such meetings between Mr. Reagan and Mr. Gorbachev, the most recent of which were not only warm and friendly, but also the occasion for the signing of meaningful arms control agreements.

As we prepare for the Dec. 3 summit, the first summit between President Gorbachev and President Bush (at least Mr. Bush's first summit as president), what should we as Americans make of Mr. Gorbachev and the "Gorby" phenomenon that among other things seems to have transformed most of Eastern Europe? Are these changes real, as those who promote Mr. Gorbachev for the Nobel Peace Prize insist? Or is it all a trick, as suggested by those who have been burnt too often by Soviet perfidy in the past?

Of course, no one knows for certain what makes Mr. Gorbachev go, and even if they did, events have been moving so fast that almost anything seems possible today, including changes that Mr. Gor-

bachev himself opposed only a few months ago. Moreover, the changes we have witnessed have not all led inexorably to a more liberalized environment. There have been steps backward, as when Soviet troops used gas to put down rioting in April in the republic of Georgia, and in Moldavia in November. Yet, it must be said that from Mr. Gorbachev's perspective at least, most of these changes in both domestic and foreign policy are intended to be real and long lasting. Not surprisingly, such a notion is not shared by everyone in the Soviet Union, but certainly this holds for Mr. Gorbachev.

Perhaps the best proof that Mr. Gorbachev is sincere is the fact that so much of what he has done, he did knowing full well that his change in course would cause him serious risk in terms of the opposition. Domestically his economic reforms, with their legalization of private and cooperative trade and the return of family farming, were bound to stir up those opposed to any move from the communist ideal that all property belongs to the state. There was equal opposition to the idea that these changes would bring about significant inequalities in income distribution. Similarly, Mr. Gorbachev's call for *glasnost* and democratization, with an open press and uninhibited discussion, was not only certain to unsettle party hard-liners, but it was bound sooner or later to lead to criticism of Mr. Gorbachev himself.

We also know that there are those in the Soviet Union who will oppose any effort by Mr. Gorbachev to improve U.S.-Soviet relations, especially if it leads to what Soviet conservatives might see as a relative weakening of the Soviet Union. Yet Mr. Gorbachev continues to tolerate the reordering of Soviet domestic and international relations. More than that, in the case of Poland, for example, Mr. Gorbachev has come to tolerate the existence of non-Communist parties and has even come to congratulate those parties when they take over

Others complain that the Soviet Union has made itself vulnerable to American military power and squandered the military superiority and missile strength that the Soviet Union had established before Mr. Gorbachev's rise to power. Some critics now openly lament the fact that the Soviet Union has even begun to give away its secrets and that U.S. military inspectors now have gained access to some of the most important military technology the Soviet Union has.

Why has Mr. Gorbachev done all these things? It probably is fair to say that some of these changes, including the defeat of some senior party officials in the elections for the Supreme Soviet, the ethnic rioting that has preoccupied Mr. Gorbachev for much of the last two years, and undoubtedly the talk of German reunification, were actions not welcomed by Mr. Gorbachev. These are the consequences of the dynamic set off by the more acceptable changes. Yet there is no doubt that such upheavals stir anxieties not only among Mr. Gorbachev's opponents, but occasionally within Mr. Gorbachev himself.

It is unlikely that Mr. Gorbachev is a true believer in democracy. At best he has been seeking a form of guided democracy that will help him implement the economic reforms that seem to be his No. 1 priority, without at the same time upending the primacy of the Communist party and the state control of industry. That explains Mr. Gorbachev's outspoken insistence that, unlike in Poland and Hungary, the Soviet Union will not countenance any party other than the Communist Party.

Similarly, he insists while the "Finlandization" or the neutralization of Eastern Europe may be tolerated, it is not acceptable if Soviet republics attempt to do the same thing. A similar attitude explains why, when criticized or shown that he has lost the confidence of the Soviet people, Mr. Gorbachev ordered the firing of the editor of the weekly paper *Argumenty i fakty*, which printed such critical surveys.

But most of what Mr. Gorbachev has done does make sense if indeed

his main goal is *perestroika* or the economic reform of his country. Given that the Soviet Union was spending 14 percent or more of its gross national product on the military, there was no way the Soviet Union could allocate the money needed for economic reform and improve its standard of living as long as so much was being spent on the military.

Similar reasoning also explains Mr. Gorbachev's determination to withdraw from the Third World. Not only had the Soviet Union taken on the burden of what must have seemed like every basket case in the Third World (not only Afghanistan, but Angola, Cambodia, Cuba, Ethiopia, Nicaragua and Vietnam), but not one of these countries had a political system or human rights policy that was worth supporting. Whereas at one time it used to be that it was the United States that found itself defending corrupt and dictatorial regimes from some local insurgency, by the early 1980s, it was the Soviet Union that ended up in that posture.

Mr. Gorbachev's support for the changes in Eastern Europe may be a little hard to explain, but apparently he decided that just like the Soviet Union, the East Europeans would also have to undergo economic and political reform if they were to avoid economic collapse. The Soviet Union was no longer in a position to prop up these countries. Thus, they would have to reform or depend on themselves.

Because the so-called Brezhnev Doctrine had heretofore stood as a barrier to all meaningful changes, Mr. Gorbachev had to demonstrate that the Soviet Union would no longer stand in the way of East European reform. Given the pressures that were building up Mr. Gorbachev seems to have understood that the only way to retain the East European alliance with the Soviet Union was to show flexibility. Rigidity was all but certain to cause a violent confrontation and ultimate split.

Similar reasoning may explain Mr. Gorbachev's support for opening the Berlin Wall. In the new political climate of 1989, the Berlin Wall no longer could hold in the East German population. Ironically, keeping East Germans inside East Germany was only possible if the wall was open. As soon as the East Germans knew they could leave, they decided they would stay.

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Soviet Balance of Trade with Eastern Europe for the First Half of 1989

Soviet economic relations with Eastern Europe have become very complicated. Largely because of the drop in the price of oil, the value of exports from the Soviet Union to Eastern Europe has fallen sharply since 1986. They are down by almost 2 billion rubles. At the same time, however, imports to the USSR from Eastern Europe have risen by 1.6 million rubles. As a result, the Soviet Union now has a very large trade deficit with Eastern Europe. That is not something East European countries want. Consequently, countries like Hungary have imposed a ban on the export of certain goods to the Soviet Union until the balance can be restored. The Soviet Union, in fact, has a trade deficit with all the countries in Eastern Europe except Romania. Its trade deficit with Poland is particularly striking, amounting to over a half billion rubles. The Soviet trade deficit with Bulgaria is almost as large.

This clearly has implications for the East European economies. It will be difficult for them to revitalize their own economies when they are in effect supporting Soviet economic growth this way. In addition, this means that in these societies where balance between imports and exports is very important, the East Europeans are exporting goods and paying their workers money but then having fewer goods available for those workers to purchase. This helps to generate

additional inflation.

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U.S. Under Secretary of Commerce for Export Administration; Ambassador Warren Zimmermann, U.S. Ambassador to Yugoslavia; Ambassador Mark Palmer, U.S. Ambassador to Hungary; and Ambassador John R. Davis Jr., U.S. Ambassador to Poland.

The final conference program will not be available until January, but we have enclosed an application form for those who might want to register now in order to assure themselves a place at the conference.

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FOREIGN EXCHANGE RATES

as of December 6, 1989

Quoted in rubles

	Official Rate	Special Rate
£100 Sterling	97.19	971.90
100 Aust. Sch.	4.97	49.70
100 D. Marks	34.99	349.90
100 D. Guilders	31.03	310.30
100 U.S. Dollars	62.05	620.50
100 Fr. Francs	10.22	102.20
1,000 Jap. ¥	4.32	43.20
10,000 It. Lire	4.75	47.50
100 Swiss Frs.	39.00	390.00
100 Nor. Kroner	9.14	91.40
1,000 Bel. Frs.	16.67	166.70
100 Sw. Kronor	9.77	97.70

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE FOR THE FIRST HALF OF 1982-1989

(in million rubles)

Exports from the USSR

	1982	1983	1984	1985	1986	1987	1988	1989
Bulgaria	2372	2880	3174	3156	3225	3050	3093	2946
Czechoslovakia	2460	2855	3346	3317	3368	3375	3218	3204
GDR	3093	3321	3583	3710	3826	3704	3489	3286
Hungary	1991	1961	2266	2207	2311	2205	2215	2055
Poland	2363	2595	2916	3089	3415	3042	3164	2867
Romania	660	849	952	889	1355	1212	1200	1335
Total exports:	12940	14461	16237	16368	17500	16588	16379	15693
Balance of trade:	+694	+735	+1067	+415	+1354	-217	-620	-1843

Imports to the USSR

	1982	1983	1984	1985	1986	1987	1988	1989
Bulgaria	2259	2573	2823	2912	3011	3317	3295	3455
Czechoslovakia	2491	2766	2996	3246	3306	3480	3476	3380
GDR	2902	3228	3772	3821	3488	3488	3358	3553
Hungary	1793	1886	2042	2280	2349	2469	2408	2417
Poland	1880	2382	2594	2611	2750	2894	3255	3468
Romania	921	891	943	1083	1242	1157	1207	1263
Total exports:	12246	13726	15170	15953	16146	16805	16999	17536



HARVARD-COLUMBIA
ARDEN HOUSE CONFERENCE
ON
AMERICAN-SOVIET RELATIONS



Russian Research Center
1737 Cambridge Street
Cambridge, Mass. 02138
Telephone (617) 495-4037
Fax 617-495-8319

W. Averell Harriman Institute
420 West 118th Street
New York, N.Y. 10027
Telephone (212) 854-4623

**GORBACHEV:
The First Five Years**

April 6 - 8, 1990
Arden House Conference Center
Harriman, New York

Please enroll me as a participant:

Name:

First

Middle

Last

Your title or position:

Company or Institution:

Address:

City:

State:

Zip Code:

Home Address:

City:

State:

Zip Code:

Daytime telephone:

Fax Number:

First name or nickname for identification badge:

Please circle your preference in the following categories:

Room Request:	Single	\$1,000
	Half of a double	\$ 900
Seating in auditorium:	Smoking	Nonsmoking
Special dietary needs (if any):		

Transportation to and from New York City:

Please sign me up for:

(\$35.00 roundtrip fee)

1. Bus departing from the Trump Shuttle terminal baggage claim area (outside the glass doors) at LaGuardia at 3:25 p.m. on Friday, April 6, 1990.

2. Bus departing from Bryant Park, 42nd Street and Avenue of the Americas (bus will be on the East side, between 41st and 42nd, facing North) at 3:35 p.m., Friday, April 6, 1990.

Buses will shuttle people from Arden House to either location 1 or 2 on Sunday, April 8 1990, at 1:00 p.m.

3. I will have my own transportation.

**Return completed form
with payment to:**

*Check should be made payable to
The Russian Research Center*

Ms. Catherine Reed
Program Coordinator
Russian Research Center
Harvard University
1737 Cambridge Street
Cambridge, MA 02138

For telephone inquiries:

(617) 495-4038

Please note our fax number:

(617) 495-8319



ECONOMIC NEWSLETTER

Russian Research Center

Harvard University

Volume XIV, No.6

February 19, 1990

ECONOMIC RESULTS FOR 1989

(Million tons unless otherwise indicated)

Product	1989 Output	1989 as % of 1988
Electricity (bil. kw hrs)	1,722	101
Oil	607	97
Gas (bil. m ³)	796	103
Coal	740	96
Steel	160	98
Metal Cutting machine tools (1000 units)	23.7	106
Computer technology (billion rubles)	7.7	120
Tractors (1000 units)	532	95
Agricultural equipment (billion rubles)	6.4	93
Mineral Fertilizer	34.3	92
Pharmaceuticals (billion rubles)	3.7	106
Paper	6.3	99.9
Cement	140	100.7
Meat	12.9	100.8
Sausage products	3.9	102.
Edible fish products	5.7	96
Butter	1.7	100.4
Cheese	0.9	101
Wholemilk products	34.6	103
Margarine products	1.5	100.6
Granulated sugar	13.3	111
Confectionary	5.1	105
Canned foods (bil. cans)	20.9	99
canned fruit/vegs	14.8	97
Nonalcoholic beverages (million dekaliters)	613	101

Product	1989 Output	1989 as % of 1988
Alcoholic beverages (million dekaliters)	125	119
Footwear (mil. pairs)	827	101
Television sets (million units)	9.9	103
Refrigerators/freezers (million units)	6.5	104
Radios (million units)	8.6	107
Tape recorders (million units)	5.7	103
VCRs (thousands)	125	171
Sewing machines (thousands)	1,553	100.2
Washing machines (million units)	6.7	110
Vacuum cleaners (million units)	5.1	106
Furniture (bil. rubles)	9.6	107
Motorcycles (thousands)	990	100.8
Cars (thousands)	1,217	96
Paper Goods (mil. rubles)	906	109
Household soap (thousand tons)	726	110
Toilet soap (thousand tons)	306	107

Livestock Herds

(Million Head as of January 1st)

	In all sectors of the economy		Stock owned privately	
	1989	1990	1989	1990
Cattle	119.6	118.3	23.8	24.1
Cows	41.8	41.7	13.0	13.2
Swine	78.1	78.9	14.5	15.2
Sheep and Goats	147.5	144.5	34.7	35.9

The Results for 1989

Goskomstat, the Soviet statistical authorities, seemed to be engaged in a contest to see which of their statistical reports can sound the most pessimistic. The report for 1989 is very dreary and depressing. While as usual, gross indicators such as what the Soviets call gross national product, increased 3%, the underlying data suggest that conditions were considerably less promising. Indeed, if the Soviets had published figures indicating increases in real GNP, there probably would have been a decline, especially if allowance was made for inflation. The Soviets now acknowledge that if account is taken of unsatisfied demand, the scale of inflation in the consumer sector reached 7.5% for 1989. There is every reason to believe that in fact the rate of inflation was probably double that, which of course would mean that there would have been a significant drop in the real per capita income.

The accompanying table indicates in part how serious some of the production problems are. Oil production is down 3%, coal production is down 4%, steel - 2%, automobile - 4%. Other figures indicate that housing construction is down 3% and freight shipments are down 2%. Particularly worrisome was the fact that the increase in industrial production for all of 1989 was reported to be 1.7%; in the second half of the year, the increase in industrial output was only 1% in the third quarter, and 0.9% in the fourth quarter. The Soviets acknowledge that much of this drop was due to the fighting in Azerbaijan and Armenia, and the strikes that occurred. These strikes, particularly in the coal mines in July, affected metallurgical production. The average number of people on strike per day was 30,000.

Of course, not all economic sectors suffered a drop in production. It was particularly encouraging that the grain harvest rose by 16 million tons. However, offsetting that was the fact that the grain sold to the state was 27 million

tons, or almost one third, less than expected. (The reason for the drop is explained in the accompanying article, which appeared in the Wall Street Journal.)

There are other areas of concern as well. While the sale of meat and sausage products increased this past year, sales of potatoes, vegetables, fruit, eggs, sugar, and tea have fallen. The Soviets acknowledge that despite a 20% increase in food imports, sales of sausage products and animal fats are rationed in one out of every five Soviet cities, among those surveyed. And sugar is rationed throughout virtually the entire country. Much of the shortage is due to hoarding. Thus, it's estimated that one fifth of the annual production of laundry detergent is hoarded - as a consequence, detergent is rationed. With these shortages of goods, it is not surprising that inflation continues to be a very serious concern. The issuance of money increased 50% over the money that had been put in circulation in 1988. The money in circulation thus increased by 18 billion rubles. No surprisingly, the average monthly money wage for urban workers rose 9-13%, depending on the type of sample being surveyed. This also explains why money saved in savings banks rose 12%, whereas consumer good sales rose 7%.

In sum, it is a rather bleak picture, and a situation that must be improved if Gorbachev hopes to convince the Soviet people that they will have a brighter future.

Foreign Exchange Rates

The foreign exchange rate table which follows reflects the new, more liberal rate for foreign currency. In effect, the Soviets as of November have established two rates of exchange: one for what I call official transactions, and the other for tourists. Thus, American tourists now receive six rubles to the dollar, compared to the sixty cents they received previously. The difficulty, however, is that

those engaged in business transactions try to take advantage of the disparity and create a form of arbitrage. Thus, those inside the Soviet Union are eager to sell to foreigners for dollars, not rubles. This has exacerbated the supply problem as more and more Soviets try to sell manufactured goods to foreigners, at the tourist rate. As a consequence, goods which have always been in abundant supply, such as watches, now suddenly are absent from Soviet shelves. This has led to an increase in the smuggling of Soviet consumer goods.

FOREIGN EXCHANGE RATES

as of February 7, 1990

Quoted in rubles

	Official Rate	"Special" Rate
£100 Sterling	101.59	1015.90
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100 D. Marks	35.83	358.30
100 D. Guilders	31.80	318.00
100 U.S. Dollars	60.10	601.00
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The final conference program and application form are enclosed. Please do not hesitate to contact Marshall I. Goldman or Catherine Reed for more information (617) 495-4038.

JOHN M. OLIN CRITICAL ISSUES SEMINAR PUBLICATIONS

We are pleased to announce that the first book based upon the John M. Olin Critical Issues Seminar Series has been published by Westview Press. The book is The Soviet Union in the Third World, edited by Carol R. Saivetz.

The opinions published here reflect those of the author and not the Russian Research Center unless stated as such.
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Piecemeal Reforms Make Many Soviets Long for Brezhnev

By MARSHALL I. GOLDMAN

Acknowledgment that the Soviet Union has run out of feed grains for its cattle is but the latest indication of Mikhail Gorbachev's difficulties with *perestroika*.

Like so many of his other economic efforts, Mr. Gorbachev's grain program has become counterproductive. Last summer the Soviet government announced a plan to pay peasants in dollars and other convertible currencies for any increase in their deliveries over the 1988 harvest. Despite the fact that the harvest rose by 16 million tons in 1989, the amount of grain offered for sale to the state fell by 26 million tons. What went wrong?

At first glance, the dollars-for-grain idea seemed to make sense. Why should the Soviets import U.S. grain and pay U.S. farmers dollars earned by exporting Soviet oil, when it would make much more sense if the Soviet Union could pay its own peasants with the dollars instead? But Mr. Gorbachev is discovering that piecemeal reform can be very dangerous.

Fearful that some of the more daring peasants might make too much money and import too many consumer goods with the dollars they would earn from extra grain sales, Soviet authorities imposed all manner of restrictions to what initially seemed to be a very simple program.

Officials prevented the peasants from spending more than one-third of their earnings on consumer goods and sharply circumscribed the selection of goods available to them. Moreover, they jacked up the prices of imported goods and imposed a service fee of one-third of whatever was spent. That limited the price paid to the peasants to only one-half the world price for grain. And the Soviets refuse to pay interest on any of the peasants' proceeds in the bank.

Once they began to see they were being exploited, the peasants decided to withhold their grain. In the 1920s something similar happened, when individual peasants hoarded grain; now the collective and state farms do so. As a consequence, last year the Soviet Union imported 36 million tons of grain—one million tons more than 1988, five million tons more than 1987 and 10 million tons more than 1986.

In 1989, one-third of all the bread baked in the Soviet Union was made with imported grain. Even worse, because of shortages of convertible currency, authorities have refused to spend any more on grain imports. As a result, feed-grain allocations for livestock are being slashed by at least 25%. This probably will mean a premature increase in the slaughter of livestock followed by a severe shortage of meat and breeding stock.

Similar disappointments have resulted from the introduction of private and cooperative businesses.

Initially only pensioners, school-age adolescents and after-hour adults could set up such firms. There were also arbitrary limits on the types of businesses and cooperatives opened. As a result, the number of such businesses was not as large as it might have been. This meant that the higher prices they charged did not serve to increase the supply of goods offered for sale in the way expected, leading to what were considered exorbitant price increases and the disappearance of goods originally intended for sale at fixed low prices in the state-regulated shops. This in turn provoked a backlash that ultimately led to the banning of certain kinds of cooperatives and the over-regulation and taxation of those cooperatives not formally banned.

The piecemeal nature of the Soviet reforms also explains the growing tendency to compartmentalize all economic activity. For example, in mid-January, local authorities in Leningrad passed regulations prohibiting food sales to anyone who could not prove he was a Leningrad resident. This was done to hamper speculators who flood the city each day to avail themselves of goods for resale in outlying regions. The same sort of procedures have been in effect in Baltic states for several months.

As a consequence, rubles—or at least rubles used to buy goods sold at artificially fixed rates—are losing their value. This is an inevitable result of growing inflation and price controls. Ration coupons are becoming more important than rubles. And when one part of the country tries to introduce price reform, it causes disruption in the neighboring republics. This is what happened when Estonia decided to deregulate the price of vodka and cigarettes. Speculators in the Russian Republic vacuumed their price-controlled stores of both products and resold them to Estonians at prices just below those of the market-determined stores.

The decision to make a half-hearted gesture at devaluation of the ruble is yet another case of what happens when officials tamper with market forces.

As of November, the Soviet government came to acknowledge that the official exchange rate is far out of line with reality. In what was seen as a bold move, the government announced a partial devaluation of the ruble; in one exchange, foreign tourists could obtain 10 times the number of rubles as before. But regular foreign trade was conducted at the old exchange rate. Responding to the arbitrage possibilities, Soviet customers emptied their stores of everything that might have any value to foreigners. As a consequence, the Soviet Union, one of the world's largest producers of watches, now is short of watches—something that never happened in the pre-Gorbachev era. The same holds for almost all appliances.

Perhaps the most disappointing aspect of the whole process is that even when the proper medicine is prescribed, the dispensers of that medicine find themselves so hamstrung that the effort seems to end up making things worse rather than better. As a result, the reform itself is now suspect. This explains why more and more Soviet citizens are looking back longingly to "the good old days" of Brezhnev and why Soviet economic reform has become more of a challenge than ever before.

Mr. Goldman is a professor of economics at Wellesley and associate director of Harvard's Russian Research Center.

No Meat, No Soap—And Now, a Crime Wave

By DMITRI N. SHALIN

When the Ministry of Internal Affairs released the first detailed data on crime in the Soviet Union last February, the figures confirmed what many had suspected for some time: Crime is on the rise. As citizens clamored for action, the ministry promised extraordinary measures to fight the crime wave. It has kept its promise but nevertheless failed to stem the tide.

Indeed, 1989 may turn out to be the worst year in Soviet criminal history (not counting political purges), despite such highly publicized actions as the setting up of anti-crime committees, the assembling of special KGB teams and the mobilizing of citizen patrols. In the first 10 months of the year, crime went up in every major category compared with the same period of 1988: rape 25%, homicide and attempted homicide 28.4%, racketeering 32%, aggravated battery 42.4%, robbery 99%, motor vehicle theft 158%.

Several new developments raise particular concern, none more so than violence in public places. Much violent crime occurs in streets, parks and playgrounds, sometimes in broad daylight with passersby looking the other way. Violence is often motivated by no other reason than the desire to humiliate and cause bodily harm. A series last fall in the newspaper *Sovetskaya Kultura* created a stir in Moscow with its graphic depiction of sadistic crimes committed in the nation's capital.

Racketeering is another relatively new phenomenon. As cooperative and private enterprises have mushroomed, so has organized crime. Soviet papers are full of stories about kidnapping, extortion, money laundering, dealing in counterfeit currency and the like. Now that travel regulations have been relaxed, organized crime in the Soviet Union is forging ties to the West, most notably the U.S. and Israel.

A growing problem is crime against foreigners. More than 2,000 visitors were vic-

timized in Moscow during the first six months of 1989. One common scam involves a taxi driver picking up tourists, with his buddies following in another car and staging a hold-up in a back street. Gary Basmadzhanian, a French art collector visiting Moscow at the invitation of Culture Ministry, vanished from a Moscow hotel last July. Kidnapping was at first suspected, but now murder is feared. Mindful of the effect such incidents could have on tourist industry, the authorities have announced stepped-up police patrols around spots favored by visitors.

One more unwelcome portent is the growing backlog of unsolved cases. According to *Izvestia*, 35% of all criminal cases registered in 1989 have been closed, at least temporarily, due to the "lack of viable clues." While crime rates went up, the number of arraignments and indictments fell precipitously, and so did the prison sentences handed down by the courts. The prison population in the Soviet Union dropped from 1.5 million in 1986 to about 800,000 at present.

Ironically, it is *glasnost* that is in part to blame for the disquiet crime creates among the population. The number of homicide cases projected for 1989—about 19,000—just about equals the number for 1979, a year that produced no public outcry. Now that crime statistics are published in every paper, the public realizes the problem's true extent and feels vulnerable.

The crime wave has affected mostly urban areas, with the bulk of felonies (73.7%) reported in major cities, where residence has always been restricted. These are the crimes that used to be cause to revoke an offender's residence permit, forcing the most dangerous criminals to settle elsewhere. Now that residence laws are less vigorously enforced, many criminals are finding their way back to the cities.

Behind the statistics one can discern a return to the old patterns of alcohol con-

sumption. Violent crime dropped between 1986 and 1987, at the peak of the anti-drinking campaign, but it shot up in the following years, when the restrictions on alcohol sales were lifted. In the first 10 months of 1989, the crime rates went up 34%, while alcohol sales increased 28%.

Special mention must go to the sorry state of law enforcement. According to *Izvestia*, the nation's average annual expenditure on police is about eight rubles per citizen, compared with about \$100 in the U.S. A Soviet law enforcement officer earns an average of 160 rubles a month, 74 rubles below the average national salary.

Finally, the economic reforms may well have aggravated the situation. Sociologists know that during transition periods, when old norms have shaken off and new ones haven't yet taken hold, deviant behavior tends to increase. Ill-defined and ever-changing laws haven't helped, nor have the chronic shortages of food and other basic items.

As long as the country remains in the throes of a painful economic transformation, crime rates probably will remain high. Still, there is much that can be done—investing in law enforcement, streamlining the law, setting up a peer jury system, reinforcing the statute that makes alcohol intoxication an aggravating factor in crime, and above all, pushing through economic reforms. These measures will not turn things around overnight, but they will reassure the public and undermine the argument that the country is out of control.

Mr. Shalin, a University of Southern Illinois sociologist, is a visiting scholar at Harvard's Russian Research Center.



ECONOMIC NEWSLETTER

Russian Research Center

Harvard University

Volume XIV, No.7

March 7, 1990

Another Cause of Food Shortages

In the absence of the quarterly report, we offer some other interesting information that has come from Soviet sources.

Everyone has been commenting lately on the growing number of shortages in the Soviet economy. It turns out that one of the reasons for these shortages is that more and more goods are being classified as "rejects" because of their poor quality. It turns out that there is a tendency to increase that share of rejected merchandise. The reason for that is that once a product is rejected, the managers of the enterprise can then resell the material on their own and keep the profits. The following table shows how the percentage of goods rejected has been increasing sharply, particularly in 1989. Thus approximately 32% of the eggs submitted for sale were rejected during the first nine months of 1989. That compares to only 22% rejected in all of 1985. The contrast is even greater in the case of margarine; in the first nine months of 1989, 29% of the amount of margarine submitted was rejected, compared to only 8% in 1985. In the republic of Tadzhikistan, 23-37% of all the meat and poultry offered for sale was rejected for the same reasons.

Notice to Arden House Participants:

We apologize for the confusion regarding the LaGuardia bus. It will pick up at the Trump Shuttle terminal, not Pan Am.

Rejected and Substandard Production (% of approved quality production)

	1985	1986	For the 9 months	
			1988	1989
Meat	4.7	6.5	5.8	9.2
Sausage	4.2	6.8	6.4	14.6
Fish products	7.1	10.0	9.5	14.8
Butter	3.9	3.6	3.9	4.2
Margarine	8.2	11.6	11.2	28.5
Milk*	3.1	4.4	4.4	8.6
Cheese	4.7	6.8	6.3	12.4
Sugar	5.9	8.1	8.7	8.3
Eggs	22.0	27.1	26.5	31.6
Candy	5.4	6.8	6.4	12.3
Bread**	4.6	5.8	5.5	15.0
Canned meat	5.2	3.2	3.3	3.6
Canned fruit & vegetables	10.3	10.9	11.1	12.5
Canned fish	5.6	9.9	9.5	12.5
Non-alcoh.	13.5	16.1	15.1	16.7

* and milk products

** and bread products

Public Attitudes Toward Cooperatives and Private Trade

The soviet authorities have been conducting surveys about public attitudes toward cooperatives and private trade. One hundred and one thousand people were interviewed. The surveys shows that for those people who do not use the services, those responding negatively outnumbered

those responding positively in most republics by a ratio of two to one. It is not true in the republics of Estonia and Armenia, but it is particularly pronounced in the Central Asian republics.

The Soviets have also published some information about the number of cooperatives in existence. As of September 30, 1989, there were approximately 236,000 cooperatives registered, of which 172,000 were actually operating. There were slightly over 4 million people working in these cooperatives. Sales receipts totalled 2.6 billion rubles.

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Attitudes Toward Cooperatives and Private Trade (101,000 people surveyed)

	All Respondents		Of those using coop and private trade services	
	Positively	Negatively	Positively	Negatively
USSR	14.7	29.4	25.3	19.0
RSFSR	14.4	29.6	23.2	19.9
Ukraine	15.0	31.0	26.8	19.1
Belorussia	14.2	28.0	28.0	18.8
Uzbekistan	9.5	30.2	18.4	24.3
Kazakstan	14.0	30.4	25.0	19.2
Georgia	14.5	23.7	34.4	10.0
Azerbaijan	22.3	22.8	41.2	14.7
Lithuania	14.8	22.7	26.7	10.7
Moldavia	13.7	35.1	27.5	24.2
Latvia	21.9	18.1	34.1	9.5
Kirgizia	15.3	26.8	27.9	18.3
Tadzhikistan	10.6	23.5	22.4	17.3
Armenia	27.8	18.3	48.9	10.9
Turkmenistan	8.9	40.2	19.7	32.4
Estonia	30.1	7.8	43.3	53.4

Timothy J. Colton, Professor of Government, Harvard; Walter D. Connor, Professor of Political Science, Boston University; Alexander Vershbow, Director, Office of Soviet Union Affairs, U.S. Department of State; Marshall Goldman, Associate Director of the Russian Research Center; Rick Ericson, Professor of Economics, Columbia; Jeffrey Sachs, Professor of Economics, Harvard Univ.; George Cohon, McDonald's Canada; Congressman Les AuCoin; Congressman Stephen Solarz; Dennis Kloske, U.S. Under Secretary of Commerce for Export Administration; The Honorable Charles A. Vanik; Ambassador Warren Zimmermann, U.S. Ambassador to Yugoslavia; Ambassador Mark Palmer, U.S. Ambassador to Hungary; and Ambassador John R. Davis Jr., U.S. Ambassador to Poland.

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100 Sw. Kronor	9.83	98.30

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Basic Indicators of Cooperative Activity in the First 9 months of 1989

	Number of coops. at end of response period		No. of employees at end of response period		Wage fund and bonuses for workers* (1,000 Rubles)	Earnings from production (1,000 Rubles)
	Registered	Active	All	Incl. persons holding more than one job		
In the USSR	236,416	171,500	4,029,790	1,455,978	10,767,302.4	25,981,264.3
including						
Production of						
goods for nat'l	41,682	28,502	657,947	212,030	1,737,461.2	4,536,850.8
consumption						
Public catering	10,570	6,100	57,220	12,984	86,287.9	369,438.1
Trade	1,878	998	11,877	3,812	31,420.3	286,757.3
Intermediary						
Trade	10,574	6,973	69,050	17,336	160,348.1	1,491,234.2
Consumer						
services	45,703	32,790	569,387	206,100	1,259,314.6	2,583,767.3
Scrap and						
recycling	3,505	2,998	86,073	28,444	292,951.2	682,874.7
Construction	33,614	30,063	1,140,202	313,844	3,536,092.9	6,923,488.3
Architectural						
Engineering	3,031	2,735	97,820	55,357	304,839.2	462,537.3
Other types of	85,859	60,336	1,340,214	606,071	3,358,587.0	8,644,316.3
cooperatives						

* including persons holding more than one job



ECONOMIC NEWSLETTER

Russian Research Center

Harvard University

Volume XIV, No.8

April 25, 1990

Soviet Trade Figures Reflect Serious Economic Problems in the Soviet Union

While Moscow has released the full year trade figures for 1989, thus far we have only received data for the first three quarters of the year. According to these reports, the trends discernible as of October 1st were the same as those reported at year-end. As a look at the accompanying tables indicates, the deficit in the Soviet trade balance with the hard currency world reached a new peak for the last few decades. For the nine month period, it totalled approximately 3.5 billion rubles, which translates at the official rate of exchange into a trade deficit of over 4 billion dollars. By American standards, that is not very high, but by Soviet standards, it indeed suggests some very real difficulties. The Soviet Union did increase its exports, probably reflecting some increase in the price of oil, but it increased imports even more. Thus imports from Europe and Japan rose by over 1.3 billion rubles. From the United States alone, imports rose by almost a billion rubles. Most of that was grain and reflected the Soviet Union's continuing problems in agriculture. That, as we have noted earlier, is despite the fact that the Soviet Union began a program of paying Soviet peasants with convertible currency for any increase in deliveries and production. But, as we also noted earlier, Soviet bureaucrats so encumbered the program that the peasants decided it was not

in their interest to participate and instead withheld their grain.

The Soviet Union's difficulties in trade were also reflected in its dealings with Eastern Europe. Again, we only have figures for the first nine months of the year, but they are very instructive. In contrast to the normal trade surplus the Soviet Union had maintained at least until 1988, the trade deficit in 1989 rose to 2.2 billion rubles. Again, this is partly a reflection of the drop in oil prices, which lag in the Soviet Union's dealings with Eastern Europe. Nonetheless, it is important to remember that in trade among the members of what has been until recently the Council of Mutual Economic Assistance (CMEA), there is no advantage in generating a trade surplus. Yet, except for Rumania, all the countries of Eastern Europe have a trade surplus in their dealings with the Soviet Union. This helps to explain why, for example, Hungary has imposed an embargo on further exports to the Soviet Union until the arrears are reduced or paid for in hard currency. That also helps to explain why some in Eastern Europe have imposed embargoes not only on government-to-government trade, but on individual tourists. In retaliation, of course, the Soviets have imposed similar restrictions on the export of a large number of food products and appliances to Eastern Europe, particularly Poland. All this indicates that the Soviet Union has to worry about whether it can pay its bills.

It was instructive that at the recent Arden House Conference, an informal survey

of businessmen in attendance indicated that a significant percentage of those present had encountered delays in payment for their goods. A minority of those present indicated that they were receiving their payments on time.

Additional Information on Foreign Trade for 1989

While the Soviets have not made complete figures for foreign trade available, they have issued a preliminary announcement which arrived just as we were going to press. There are some interesting data in this preliminary information. The general trends seem to be consistent with what we reported earlier in this newsletter; the data on exports of specific commodities, however, are particularly striking. Thus, in 1989, the Soviets reduced their exports of petroleum and petroleum products by 10%. However, because of a firming in prices, their total export earnings from the sale of petroleum and petroleum products fell by only 5%. Nonetheless, that drop did hurt. What is also significant is that the export of almost all consumer goods was curtailed sharply, for the most part by 20%. That was in response to the criticism that the Soviets were exporting goods that were desperately needed at home.

The Soviet import pattern also contained some very interesting information. Particularly noteworthy is the fact that imports of machinery continued to increase. This is surprising, given the Soviet Union's foreign trade deficit. Machinery imports rose by over one billion rubles from 1988 to 1989.

At the same time, grain imports rose by two million tons, with a cost to the Soviets that was approximately 800 million rubles higher. However, the import of fruits and vegetables declined.

Responding to pressure for more soap, Soviet imports of soap in 1989 rose to almost

230,000 tons, as compared to a mere 8,000 tons in 1988. Similarly, laundry detergent rose to 223,000 tons compared to the 1988 figure of 61,000. The Soviets say that overall, imports of consumer durables rose by 2.1 billion rubles in 1989, and imports now account for 28% of all the medical products consumed, 23% of all laundry detergent consumed, 22% of all textile products, 19% of soap, 11% of furniture, and 8% of shoes.

FOREIGN EXCHANGE RATES

as of April 4, 1990

Quoted in rubles

	Official Rate	"Special" Rate
£100 Sterling	99.05	990.50
100 Aust. Sch.	5.11	51.10
100 D. Marks	35.94	359.40
100 D. Guilders	31.91	319.10
100 U.S. Dollars	61.03	610.30
100 Fr. Francs	10.67	106.70
1,000 Jap. ¥	3.81	38.10
10,000 It. Lire	4.88	48.80
100 Swiss Frs.	40.60	406.00
100 Nor. Kroner	9.26	92.60
1,000 Bel. Frs.	17.37	173.70
100 Sw. Kronor	9.94	99.40

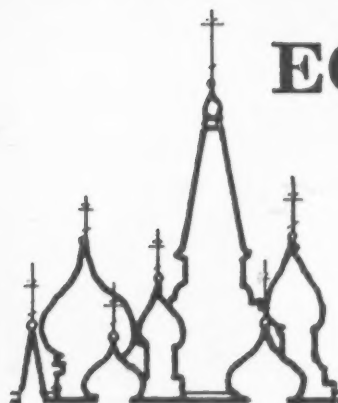
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BALANCE OF TRADE - 1st NINE MONTHS OF 1982 - 1989 (Million Rubles)

EXPORTS FROM THE USSR

IMPORTS TO THE USSR

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>		<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Austria	493	413	563	603	415	268	328	284		387	622	656	615	638	428	497	670
Belgium	774	741	902	658	444	569	587	590		421	449	380	425	337	274	289	364
Great Brit.	622	802	974	833	943	1158	1253	1647		531	495	587	563	407	394	415	679
Greece	441	343	416	408	156	176	252	215		100	128	87	104	46	32	61	88
Denmark	268	221	275	213	105	91	87	119		53	54	73	76	113	59	77	88
Spain	106	229	224	148	81	334	437	468		127	182	227	291	130	122	114	157
Italy	2209	2152	2388	1799	1110	1271	1283	1384		874	1119	983	970	1119	1250	1077	1106
Neth.	1175	1393	1243	770	425	591	488	662		282	410	188	227	181	185	194	275
Norway	59	59	78	91	41	51	50	63		56	75	60	51	55	48	61	81
Germany	2982	2498	3478	3026	2197	1780	1837	1791		2201	2685	2558	2400	2268	2037	2451	2826
France	1664	1768	1695	1554	1116	1093	1150	979		958	1353	1246	1291	860	851	789	862
Switz.	326	394	290	244	235	239	281	333		311	274	293	384	360	404	636	707
Sweden	289	491	441	392	213	301	309	383		283	191	184	240	190	171	182	267
Japan	556	579	633	695	721	690	884	940		2129	1707	1534	1849	1755	1234	1464	1498
Subtotal	11964	12083	13600	11026	8202	8612	9226	9858		8713	9744	9056	9486	8459	7489	8307	9668
Sub-Bal. of Trade										+3251	+2339	+4544	+1540	-257	+1123	+919	+190
Argentina	25	19	20	44	51	31	16	54		1133	1153	983	1114	172	374	331	516
U.S.A.	112	171	210	228	216	197	223	373		1811	1037	1734	1927	997	747	1334	2292
Canada	17	22	15	13	9	11	11	25		945	990	971	466	383	327	352	306
Australia	12	5	12	12	7	10	9	13		438	321	365	446	446	253	240	465
New Zealand	5	1	6	3	3	4	8	12		178	145	38	61	3	58	71	110
Brazil	122	85	93	48	25	43	14	16		356	429	396	300	200	190	138	185
Total	12257	12386	13956	11374	8513	8908	9507	10351		13574	13819	13543	13800	10660	9438	10773	13542
Balance of Trade										-1317	-1433	+413	-2426	-2147	-530	-1266	-3191
Finland	<u>1735</u>	<u>1744</u>	<u>1833</u>	<u>1588</u>	<u>1153</u>	<u>1292</u>	<u>1170</u>	<u>1252</u>		<u>2021</u>	<u>2043</u>	<u>1747</u>	<u>1914</u>	<u>1677</u>	<u>1530</u>	<u>1613</u>	<u>1556</u>
	13992	14130	14789	12962	9666	10200	10677	11603		15595	15862	15290	15714	12337	10968	12386	15098
										-1600	-1732	-501	-2752	-2671	-768	-1709	-3495



ECONOMIC NEWSLETTER

Russian Research Center

Harvard University

Volume XIV, No.9

May 14, 1990

ECONOMIC RESULTS FOR FIRST QUARTER 1990

(Million tons unless otherwise indicated)

Product	First Q 1990 Output	1990 as % of 1989
Electricity (bil. kw hrs)	474	101
Oil	145	96
Gas (mil. m ³)	211	103
Coal	187	94
Steel	39.9	98
Metal Cutting machine tools (1000 units)	6.1	101
Computer technology (million rubles)	2055	115
Tractors (1000 units)	137	95
Agricultural equipment (million rubles)	921	94
Mineral Fertilizer	8.5	93
Pharmaceuticals (million rubles)	1002	107
Paper (1,000 tons)	1576	98
Cement	34.3	98
Meat	2.9	94
Sausage products (1,000 tons)	988	100.8
Edible fish products	1.6	97
Butter	1.7	100.4
Cheese (1,000 tons)	192	100.1
Wholemilk products	8.4	102
Margarine products (1,000 tons)	419	104
Granulated sugar	1.5	101
Confectionary	1.4	103
Canned foods (bil. cans)	4	98
canned fruit/vegs	2.5	94
Nonalcoholic beverages (million dekaliters)	105	100.6

Product	First Q 1990 Output	1990 as % of 1989
Alcoholic beverages (million dekaliters)	32	108
Footwear (mil. pairs)	212	99.6
Television sets (million units)	2.5	103
Refrigerators/freezers (million units)	1.7	100.4
Radios (million units)	2.3	112
Tape recorders (million units)	1.5	111
VCRs (thousands)	61.7	234
Sewing machines (thousands)	456	114
Washing machines (million units)	1.9	114
Vacuum cleaners (million units)	1.3	105
Furniture (mil. rubles)	2.6	108
Motorcycles (thousands)	262	103
Cars (thousands)	321	106
Paper Goods (mil. rubles)	244	111
Household soap (thousand tons)	198	110
Toilet soap (thousand tons)	84.8	108

Livestock Herds

(Million Head as of April 1st)

	1989	1990	1990 as % of 1989
Cattle	95.0	93.3	98
Cows	28.4	28.1	99.1
Swine	58.4	57.9	99.2
Sheep and Goats	132.8	126.8	95

Quarterly Results

The new production figures for the first quarter of 1990 have just been published and they tell a sad tale. Readers of this newsletter have become accustomed to sad tales, but as events have unfolded in the Soviet Union, it is clear that the statistics were early warning signals of what would become a rapid decline in the morale of the Soviet people.

The explanation of the Soviet statistical authorities for the deterioration in the economic situation is that the economy is troubled by strikes, nationalism and ethnic rioting and disputes, the loss of production as military factories attempt to switch to civilian production, and pollution problems which have necessitated the closing down of several factories. As a consequence of such factors, industrial production is down by 1.2%. This is one of the few times in recent Soviet history that the Soviets have officially acknowledged a drop in production. That of course is before inflation is taken into account, which would mean that industrial production probably fell even further.

While the Soviets say there is some good news, even that good news is tempered. They report that consumer goods production rose 6.3%. However, closer examination indicates that most of the increase is due to an increase in alcohol production and sales of 10.9%. Food production rose only 1.2% and consumer goods were up only 1.7%. In the meantime, they officially acknowledged that the inflation rate was 8% over what it was in the first quarter of 1989. This compares to an official rate of 7.5% for all of 1989. Equally disturbing is the fact that money incomes rose 13.3% (versus 12.9% for all of 1989) and savings rose 22%. This shows how rapidly inflation and a continual outpouring of money are occurring.

The Soviets have been attempting to make more consumer goods available. Thus

automobile production rose 6%, soap production rose 8%, detergents 8%, pencils 15% and notebooks 2%. These are all goods that have been in short supply and the production of which has fallen in the past. In any case, shortages of these goods have provoked widespread public outcry. Nonetheless, despite the fact that sales of such items has increased, soap, for example, is still rationed in over 100 cities. At the same time, production of other goods such as meat is down 6%. In some cities it is down 18-20%. Similarly, apartment construction is down 9%.

As a sign of things to come, industrial production is also lagging or dropping. Electricity generation was up only 1% and natural gas production was up 3%. More disturbing, however, is the fact that crude oil output was down 4%, coal down 6%, and steel down 2%. The drop in oil and coal production reflects increasing deterioration from the results of 1989 as a whole.

In agriculture the situation also continues to deteriorate. There seems to be a strong indication that the peasants are holding back output and not selling it to the state. There have been rumors to that effect, but the statistics seem to confirm it. Nor has there been much to show that the peasants are taking up the offer to rent their own land and establish family farms. Soviet authorities report that there are 20,000 independent farms, not a large number.

Finally, in the foreign trade sector, there is also further deterioration. Exports to Eastern Europe are down by 9.7% and imports from Eastern Europe are down by 11%, and authorities report that the foreign trade situation has declined from what it was before. The Soviets do report that there are now 1500 joint ventures, but continuing reports of failure to pay bills and even a temporary closing of the registration office where joint ventures are listed suggest that problems exist even in

this area.

All in all, the situation does not indicate any stabilization, which the Soviet authorities were hoping for by this time.

Change in Staff

This newsletter marks the last issue under the general editorship of Catherine Reed. She is leaving the Russian Research Center in order to pursue an M.B.A. at New York University, and will be spending the summer in the Soviet Union. We wish her well and will miss her. Judy Mehrmann, who has a master's degree in Russian Studies from Princeton, will be joining the staff of the Center on June 1. We welcome her aboard!

FOREIGN EXCHANGE RATES

as of 11 April 1990

Quoted in rubles

	Official Rate	"Special" Rate
£100 Sterling	99.05	990.50
100 Aust. Sch.	5.10	51.00
100 D. Marks	35.95	359.50
100 D. Guilders	31.90	319.00
100 U.S. Dollars	60.68	606.80
100 Fr. Francs	10.68	106.80
1,000 Jap. Y	3.87	38.70
10,000 It. Lire	4.89	48.90
100 Swiss Frs.	40.64	406.40
100 Nor. Kroner	9.27	92.70
1,000 Bel. Frs.	17.39	173.90
100 Sw. Kronor	9.92	99.20

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The Providence Journal

MORNING EDITION OF THE PROVIDENCE JOURNAL-BULLETIN: SINCE 1829

CITY FINAL

WEDNESDAY, MARCH 14, 1990/35 CENTS/\$1.6

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The next domino to fall?

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THE chain-reaction collapse of communist regimes in Eastern Europe raises the question of whether North Korea will be the next domino to topple.

The breathtakingly swift fall of the Romanian dictator Nicolae Ceausescu has fueled discussions on the prospect of Kim Il Sung's downfall, for there are striking similarities between the two regimes. Although the excitement stirred by the Romanian revolution has now been somewhat subdued, the memorable end of the Ceausescu dictatorship will remain as a great historical lesson in any discussion on dictatorial rules.

It is valuable to compare Kim Il Sung's North Korea to Ceausescu's Romania before we leap to the conclusion that Eastern European dominos will soon reach North Korea.

One similarity between Romania and North Korea is a ruined economy. With its military spending amounting to 25 percent of GNP, North Korea's economy has been staggering for a long time. The recent spending of \$4.7 billion on the Pyongyang Youth Festival, a counter-showcase to the Seoul Olympic games, has aggravated the economic situation. The North Korean regime has coped with popular discontent about economic conditions with thoroughgoing control of outside information and a barrage of propaganda. The North Korean leadership preaches to its population that they live in "a paradise on earth," and there is nothing to envy in the world beyond.

Information control in North Korea has been so rigid that the North Korean people have little access to foreign news. Correspondence with relatives in South Korea is forbidden. There is no listening to South Korean broadcasting because radios have fixed channels. Due to this blackout

SEUNG-CHUL HUR

of the outside world, North Koreans have no reference point with which to compare their world.

And in creating a personality cult, Ceausescu is no match for Kim Il Sung. The most extraordinary adjectives in the Korean language have been mobilized to describe Kim Il Sung: He is described as "the great leader, a peerless patriot, an ingenious thinker, the sun of the nation, the red sun of the oppressed people of the world." The best university in Pyongyang has his name. There is even a Kim Il Sung flower. On his 60th birthday Kim erected a museum with 92 exhibition rooms featuring his achievements.

As in Romania, nepotism is an obvious feature of the North Korean regime. Kim Il Sung has designated his son, Kim Jong Il, as his political heir. He is now known as the "new dear leader," and North Korean propaganda maintains that he is the only leader who can complete the revolutionary tasks set forth by his father. Preparations for the political succession have been underway for the past decade, and key government positions are already filled by loyal followers of Kim Jong Il.

Some of the differences between Ceausescu's and Kim Il Sung's regime are as evident as the similarities. Kim has an advantage in the strategic environment of North Korea: By continually emphasizing the military "threat" from South Korea and from the American imperialists, he can justify his rigid control of society and the far-reaching restraints on individual freedom.

One other factor which makes Kim different from Ceausescu is that he is not hated as much by his own people. Al-

though he has been merciless in purging his political opponents, he has not waged war on the North Korean people with a mass killing or a Stalin-style reign of terror. He postures as a caring leader. Although installed in power by the Soviet army at the end of World War II, he has succeeded in creating an aura of legitimacy as a nationalist leader.

He is the only postwar communist leader who remains in power to this day.

There is a distance in political culture as well as in geography before the dominos in Eastern Europe reach North Korea. In the politics of East Asia, the authoritarian dictatorship is not unusual: China, Taiwan and South Korea have long histories of dictatorial rule. In China, Mao survived his mistakes during the Cultural Revolution and was repudiated only in death. The current regime in China still appears stable, even after the Tiananmen massacre.

Given the circumstances I have discussed thus far, it might be hard to expect Kim's regime to be toppled by mass revolt. It is equally unlikely that Kim will take a radically different course voluntarily.

So far the North Korean regime apparently believes that more indoctrination is the best countermeasure to reformist sentiments. After the Romanian incident, Kim asserted that North Korea will remain "the base of socialism in the Orient," and he devoted one-third of his New Year's message to preaching the "superiority" of socialism.

At this point, the most important external factor which might bring about Kim's downfall is upheaval in China. For if the China domino falls, North Korea could not stay upright.

Seung-Chul Hur is a research associate at the Center for Foreign Policy Development at Brown, and research fellow at Harvard's Russian Research Center.

Sharing the road

DAVID S. BRODER

WASHINGTON — Secretary of Transportation Samuel K. Skinner is one of the best people President Bush has brought to Washington — an energetic, intelligent, politically skillful manager, committed to en-

"increase the state and local share of federal-aid projects... allow greater use of toll financing on federal-aid highways

er 10 percent by fiscal 1995.

Skinner told me that "the states and local governments are not doing enough." But the long-term trend shows that the costs increasingly have been shuffled from higher levels of govern-



ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIV, No.10

June 18, 1990

Economic Report for the First Four Months of 1990

Unlike the situation two years ago, the Soviets now release only fragmentary information on a month-by-month basis. The last full report appeared in our last newsletter and focused on the first quarter of the year. The Soviets have now released some additional information about April, and for the most part, the trend seems to be the same -- down.

There are some signs of hope. The production of consumer goods has increased, as have consumer good imports. For example, according to official reports, the delivery of imported consumer goods rose by 50%, from the corresponding period of 1989. The delivery of all consumer goods rose 10%, although the Soviets do not make clear if that is by volume or by value. The reason that is significant is that inflation continues to grow. For example, prices on the collective farm markets (the kolkhoz markets) rose overall by 13%. However, meat prices rose 19%, and fruit prices by 21%, and early potatoes doubled in price.

Especially disturbing is the fact that the Soviets report that national income was down by 1.7%, slightly more than was the case for the first three months of 1990. In the meantime, of course, money incomes continue to rise. For the first four months they rose 13.4%. Given the fact that that far exceeds production of goods, this adds to the

inflationary pressure. Similarly, housing construction is down by 3%. Overall, in other words, the downward trend continues and the hopeful signs at this point do not seem to be potent enough to reverse the trend.

One index of these difficulties is the value of the ruble in relation to foreign currencies. In addition to the official tourist rate, which is included elsewhere in this newsletter, the Soviets now also conduct periodic auctions. These auctions are designed solely for Russian buyers and sellers of foreign currency. The markets are not very extensive, but they do provide some measure of the credibility the Soviets themselves attribute to the ruble. There are now a whole host of exchange rates. The official Gosbank exchange rate as of May 9 was set at one dollar for 67 kopecks. The tourist rate, or special rate as the Soviets call it, was set at one dollar for six rubles and 70 kopecks. On the auction market, however, the rate set on May 10, 1990 was 27 rubles to the dollar. That means that each ruble is worth 3.7 cents. That is a fall in the rate of the ruble from the preceding auction on April 5, when the rate was 21 rubles to the dollar, or 4.35 cents to the ruble, and that in turn represents a fall from February 21, when the rate was 29 rubles to the dollar, or 4.76 cents. What this shows of course is that the ruble continues to fall in value, having lost almost 30% of its value from February to May.

For those who are interested in learning more about the Soviet market, Business Week

has prepared a videocassette entitled "How to Enter the Soviet Market." Interested readers should contact McGraw-Hill, How to Enter the Soviet Market, 1825 Old Ranch Road, Los Angeles, CA, 90049.

Zaslavskaia Discusses Perestroika and Public Opinion

"Perestroika is no less important a phenomenon in the Soviet Union than the Revolution of 1917," said the sociologist Tatiana Zaslavskaia in a talk at the Russian Research Center. Zaslavskaia delivered an address entitled "Perestroika and Public Opinion" on May 16.

Based on surveys conducted by the All-Union Center for the Study of Public Opinion throughout the USSR last autumn and this spring, 94% of those polled indicated that the Communist Party in one form or another was to blame for the present crisis in the Soviet Union. Yet despite the decline in support for the CPSU, the idea of a multi-party system struck many in the survey as too new and radical an idea to be implemented quickly. The loss in confidence in both the party and state is hindering the perestroika process, Zaslavskaia said.

Accordingly, more popular measures are needed, she noted, including the transformation of the Communist Party from the ruling party to a party of the Parliament tied in with the gradual introduction of a multi-party system. In addition, Zaslavskaia called for the formation of a "legal state" wherein legislative, executive, and judicial powers are separated. She also cited the need for the transformation of the USSR into a true confederation.

In terms of economics, her survey revealed that 50% of those polled favored private ownership; 25% were against the idea. Nearly one-third would not mind starting their own business, whereas 45% were against such

a proposal. Nearly half of those surveyed felt unemployment was "inadmissible and impossible." Nearly two-thirds acknowledged a gap between the rich and poor.

The most common feature of the survey was the predominantly pessimistic view of the respondents toward the prospects for perestroika. The restoration of the loss of confidence in the political institutions, Zaslavskaia noted, is one of the chief tasks facing the current Soviet leadership.

David Kramer

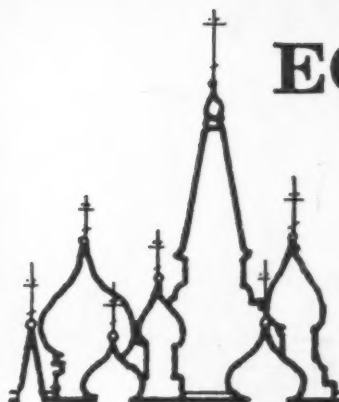
FOREIGN EXCHANGE RATES

as of May 9, 1990

Quoted in rubles

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£100 Sterling	99.93	990.30
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100 Sw. Kronor	9.93	99.30

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ECONOMIC NEWSLETTER

Russian Research Center

Harvard University

Volume XIV, No. 11
July 25, 1990

We Stand Corrected

One of our readers, Stephen Moody, has correctly pointed out that our recent discussion about the rate of exchange between the ruble and the dollar in the official Soviet auction was misstated (see letter below). The rate we were reporting was the auction rate of the ruble in relation to the *invalyutnii* ruble. That is approximately 60% higher than the rate which shows up for the dollar.

We do, however, have some new quotations to report. In the auction that took place on May 22, 1990, the established rate was set at 35.1 rubles to the *invalyutnii* (or purportedly hard-currency) ruble. That would mean that 21.085 rubles would buy one dollar.

In any event, this indicates a further deterioration in the ruble. This amounts to a drop of about 30% in the auction value of the ruble from May 10 to May 22. Overall, since the auctions began in November of last year, the exchange rate of the ruble has fallen 2.3 times. This also seems to reflect, as Mr. Moody points out, the black market tendency.

Here are the ruble auction prices we have recorded since November 3, 1989:

rubles to the hard-currency ruble

November 3, 1989	15.2
January 21, 1990	17.5
February 21, 1990	21
April 5, 1990	23
May 10, 1990	27
May 22, 1990	35.1

All of this stands in contrast to the official tourist rate, at which one dollar buys 6.26 rubles. That in turn contrasts with the official rate of exchange, which is that one dollar buys 63 kopecks. Travelers to the Soviet Union should be careful when they go into the beriozka stores, where they will encounter the \$1.00/63 kopecks rate of exchange.

In the meantime, we thank Steve for taking the time to write to us. We welcome letters from all our readers.

Unfortunately, the breakdown of trade figures for all of 1989 has not yet appeared in the West. The Soviets have not published their foreign trade monthly since March. We do not know if this is a result of perestroika or the fault of the mail system. Moreover, we will have to wait for the next newsletter for material about production for the first half of the year. In lieu of these figures, we have decided to present some materials taken from the new and very interesting journal published by the cooperative, FAKT, which is entitled *Kommersant*. They have compiled an informal survey of prices. It should be emphasized that this is not an official source. However, there is some reason to treat even official price indices with some skepticism. Nonetheless, this is the information they report, subject to many qualifications.

**The Growth of Average Prices from March
to June in percentages**

	state sector	new coops	free sector (black market)
food products	0.6%		47%
clothing & shoes	2.4%	4.3%	34%
durable goods	1.2%		87%
services	4.8%	4.4%	4%
Total	1.8%	4.3%	65.1%

It's impossible to tell from the photograph whether the leak is from the transmission or the crankcase, and the caption doesn't specify. A minor detail, I'm sure.

Stephen S. Moody
Soviet Trade and International Marketing

Letters to the Editor

To the editor:

I note that in the latest issue of the *Economic Newsletter* (June 18, 1990) you report the value of the ruble at the May 12 auction as 27 to the dollar. In fact, *Ekonomika i Zhizn'* (No. 21, May 1990, p. 2) reports the auction results as 27.11 rubles per *invalyutniy rubl'* which, I assume, means 27.11 rubles per official rate ruble, or 16.285 rubles per dollar (27.11/1.6647).

The latter, 16.285 rubles per dollar, is of course closer to the Black Market rate which in May was still running between 15 and 22 to the dollar, depending on the size of the transaction and whom one was dealing with. The auction was small (a freckle more than six hundred thousand dollars) but nonetheless remarkable at that rate, since there aren't that many cab drivers who can handle a half-million dollar deal.

On the lighter side, Amtorg Trading in New York is offering foreign clients the opportunity to buy Lada automobiles for their *valyuta*-less Soviet friends. The cars range in price from \$5750 to \$10,000, FOB Leningrad factory, eight weeks after payment.

The brochure accompanying this announcement features a brand new Lada 2107 four-door parked over a sizable oil slick.

FOREIGN EXCHANGE RATES
as of July 4, 1990
Quoted in rubles

	Official Rate	Special Rate
£100 Sterling	103.81	1038.10
100 Aust. Sch.	5.10	51.00
100 D. Marks	35.78	357.80
100 D. Guilders	31.80	318.00
100 U.S. Dollars	59.22	592.20
100 Fr. Francs	10.65	106.50
1,000 Jap. ¥	3.91	39.10
10,000 It. Lire	4.88	48.80
100 Swiss Frs.	42.18	421.80
100 Nor. Kroner	9.30	93.00
1,000 Bel. Frs.	17.42	174.20
100 Sw. Kronor	9.86	98.60

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Loss of Working Hours in 1989
(in thousands of working days)

	Total	Industry	Construction
USSR	7302.6	5449.6	914.1
Russian SSR	1235	998.9	151.3
Kom ASSR	116.6	113.5	3.1
Rostov Oblast	15.5	15.5	-
Kemerovsk Oblast	1059	848	137
Omsk Oblast	8.3	.2	8.1
Krasnoyarskii Krai	7.1	7.1	-
Magadanskii Oblast	3.6	2.3	.1
Yakutskii ASSR	3.3	.5	.5
Ukrainian SSR	971.9	902.7	69.1
Voroshilovgradskii Oblast	335	309.3	25.7
Dnepropetrovskii Oblast	81.5	68.8	12.7
Don Oblast	521.7	492	29.7
Lvov Oblast	26.6	25.4	1
Belorussian SSR	11.9	4.9	3.1
Gomelskii Oblast	9.1	2.8	2.7
Minsk (city)	1.8	1.8	-
Uzbek SSR	10.9	6.6	4.3
Kasakh SSR	63.1	47.2	4.3
Gurevskii Oblast	18.8	2.9	4.3
Karagandunskii Oblast	44.1	44.1	-
Georgian SSR	1290.5	610.4	135.3
Azerbaijanian SSR	1980.4	1406.5	360.8
Nagorno-Karabakh Oblast	994.6	700.7	199.7
Moldavian SSR	1508.8	1260.8	179.5
Armenian SSR	210.5	210.5	-
Estonian SSR	17.9	1	6.4

SOCIAL BAROMETER

TRUST IS FALLING

Edited by Prof. Yuri LEVADA

The All-Union Centre for the Study of Public Opinion recently followed up the May poll on political opinions. More than 1,400 people were questioned.

Do you believe that the present government is capable of extricating the country from the economic crisis?

Yes	8% (in May 14%)
Rather yes than no	10% (18)
Rather no than yes	35% (29)
No	32% (19)
Undecided	15% (20)

To what extent do you trust the country's leadership today?

Completely	6% (14)
In the main	33% (44)
Not at all	46% (30)
Undecided	15% (12)

Whom do you trust more?

Eduard Shevardnadze	31%
Nikolai Ryzhkov	27%
Nikolai Gubenko	15%
Leonid Abalkin	9%
Vadim Bakatin	6%
Dmitry Yazov	4%

Vladimir Kryuchkov, Alexandra Biryukova, Valentina Pavlova, Mikhail Nenashev, Vladimir Shcherbakov—each 1%.

Do you support the demand that the government resign?

Yes	46%
No	22%
Undecided	32%

What is your attitude to the concept of transition to a regulated market economy, proposed by the USSR government on May 24, 1990?

Positive	14%
Negative	51%
Undecided	35%

What is your attitude to the government's proposed increase in prices from July 1990?

Positive	33%
Negative	61%
Undecided	6%

What will be the consequence for the country's leadership if it proves unable to lead the country out of the crisis soon?

A coup at the top	13% (13)
Loss of power as a result of public action	25% (26)
Transfer of power to other political forces in a parliamentary way	22% (17)
No serious consequences for the leadership	16% (18)
Undecided	24% (26)

Do you back the election of Boris Yeltsin as Chairman of the RSFSR Supreme Soviet?

Yes	84%
No	15%
Undecided	1%

Do you approve of the proclamation by the Congress of RSFSR People's Deputies asserting the priority of Russia's laws above the laws of the USSR?

Approve	50%
Do not approve	24%
Undecided	26%

LOOKING INTO THE FUTURE

In the May poll the following question was put to 2,500 people:

If we had a multiparty system, which party would you vote for?

CPSU	18.8%
CPSU (democratic platform)	10.9%
Workers	9.6%
Ecological (Greens)	7.2%
Social-Democratic	7 %
Independent republican CP (communist)	3.9%
Democratic Union	2.3%
Peasants	2.2%
National-patriotic	1.6%
Liberal-Democratic	1.1%
Union of businessmen	1 %
Christian-Democratic	0.9%
Anarchist	0.6%
Islamic	0.5%
Undecided	29%



ECONOMIC NEWSLETTER

Russian Research Center

Harvard University

Volume XIV, No.12

August 15, 1990

ECONOMIC RESULTS FOR FIRST HALF 1990

(Million tons unless otherwise indicated)

Product	First Half 1990 Output	1990 as % of 1989
Electricity (bil. kw hrs)	872	100.4
Oil	291	96
Gas (mil. m ³)	409	103
Coal	362	94
Steel	79.2	98
Metal Cutting machine tools (1000 units)	11.8	99.5
Computer technology (million rubles)	4059	110
Tractors (1000 units)	263	95
Agricultural equipment (million rubles)	1834	95
Mineral Fertilizer	16.7	90
Pharmaceuticals (million rubles)	2001	107
Paper	3.1	98
Cement	69.3	98
Meat	6.1	97
Sausage products	2	100.7
Edible fish products	2.8	97
Butter	1.8	99
Cheese (1,000 tons)	454	100.2
Wholemilk products	17.7	102
Margarine products (1,000 tons)	817	101
Granulated sugar	3.7	102
Confectionary	2.7	103
Canned foods (bil. cans)	7.1	97
canned fruit/vegs	4.2	95
Nonalcoholic beverages (million dekaliters)	307	94

Product	First Half 1990 Output	1990 as % of 1989
Footwear (mil. pairs)	419	100.3
Television sets (million units)	5.2	105
Refrigerators/freezers (million units)	3.3	100.8
Radios (million units)	4.6	109
Tape recorders (million units)	3.1	110
VCRs (thousands)	183	320
Sewing machines (thousands)	855	112
Washing machines (million units)	3.8	118
Vacuum cleaners (million units)	2.8	111
Furniture (mil. rubles)	5.2	109
Motorcycles (thousands)	508	104
Cars (thousands)	631	105
Paper Goods (mil. rubles)	488	111
Household soap (thousand tons)	386	108
Toilet soap (thousand tons)	167	107

Livestock Herds

(Million Head as of July 1st)

	1989	1990
Cattle	95.7	93.2
Cows	28.6	28.2
Swine	59.2	57.2
Sheep and Goats	142.3	135.9
Chickens	792.9	775.6

More Dismal Figures for the First Six Months of 1990

As the economics newspaper, *Rabochaia Tribuna*, described it, "the revitalization of the economy did not occur. Instead the crisis in the national economy intensified."

During the first part of the year, industrial production fell by .7% while national income fell by 2% from the comparable period in 1989.

The Soviets have also released some information about specific industries. For example while natural gas output rose 3%, oil output declined 4% and coal production fell 6%. Electricity generation was constant. Steel production fell 2% and fertilizer production 10%.

As for consumer goods, meat production fell for the first six months as did the hatching of eggs. The delivery of vegetables to the state also fell. The Soviets also report a drop in the size of their herds. As the accompanying table indicates, the number of cattle fell 3%, cows by 1%, pigs by 3.5%, sheep and goats by 4.5% and chickens by 2%.

This is the first time in many years that all livestock herds are less than they were in the preceding period.

Adding to the bad news was the fact that housing construction fell 6%.

There are conflicting reports about the size of the deficit. There are some suggestions that the size of the deficit was 20 billion rubles or so. Other reports indicate that it was 60 billion rubles which would still be a drop from all of last year. However unofficial estimates suggest that the size of the budget deficit remains the same as it was last year, that is about 10 to 12% of the Soviet GNP.

The circulation of money increased by 9% during the first half of the year and the monetary income of the population rose by 12.9%. It was only supposed to have increased by 7.1%.

For the period as a whole, there were on average of 75,000 workers a day on strike. Other sources suggest, however, that the average number of workers on strike for June totalled 130,000 per day. While prices recorded on the official state stores rose only about 2%, the more meaningful price index on collective farm markets shows that prices rose 18%.

The crime rate rose 14.6% but there is some solace in the fact that that was less than the rate increased in 1988 which was 32%.

Another interesting figure is that as of July 1, 1990 there were 1,830 officially registered joint ventures. Even more interesting is the fact that as of July 1, 1990 more than 15,000 Soviet enterprises were authorized to engage in foreign economic activities. That more than anything else helps to explain why the foreign trade balance seems to be so unfavorable. The deterioration of the trade balance apparently continued into 1990. The Soviets report that while exports to the hard currency world fell 8.2%, imports from the hard currency countries rose by 13% which of course has increased the trade deficit by a significant amount. All in all it is not a very pretty picture and it goes a long way to suggest why morale is so bad and why the different republics seem to be taking affairs into their own hands.

Soviet Balance of Trade With Hard Currency Countries

The first sign that the Soviet Union is having economic problems is when there is a delay in the release of statistics. This has happened with the balance of trade. We have only just received the April issue of the journal, *Foreign Trade*, which publishes their foreign trade figures. Usually the journal comes out close to the month it is scheduled.

We now have the balance of trade figures for 1989 and they explain more than anything else can why the Soviet Union is not

paying its bills. For the first time in recent memory, the Soviet Union has a trade deficit with the West European countries and Japan. Usually because of the export of petroleum and natural gas, they have a surplus. However, Soviet imports rose by 3 billion rubles in 1989 from those countries over what they had been in 1988. In addition, Soviet imports from the grain producing countries, including the United States, rose by 1.3 billion rubles in 1989. When combined that leaves the Soviet Union with a trade deficit of about 4.5 billion rubles in its dealings with hard currency countries. In 1988 the deficit was 1.6 billion rubles. That meant there was almost a threefold increase in one year.

Exports from the Soviet Union did rise by about 1.5 billion rubles but that in no way was enough to compensate for the increase of imports that rose by 4.3 billion rubles. The dollar equivalent is hard to calculate because of the peculiar way the Soviets handle the rate of exchange, but it probably amounts to \$7 to \$8 billion.

We do know that oil exports in 1989 did drop about 12% to hard currency countries. Nonetheless the overall ruble income from exports rose. That may be due in part to an increase in exports of natural gas and other products. Nonetheless with a threefold increase in their trade deficit, the Soviets undoubtedly found themselves short of cash and that explains why they had trouble paying their bills.

Another reason for the big increase in imports is that the government has decentralized and allowed individual enterprises to increase imports. When the Chinese did that, they also ended up with a sharp increase in imports. It will be hard for the Soviets to bring the trade deficit into balance unless they reimpose control over the enterprises. Of course what is happening in the meantime is that many Western and

Japanese firms have ceased shipping goods to the Soviet Union. For a time imports into the Soviet Union dropped not because of the cutback in orders but of a refusal to deliver signed contracts.

With the world embargo on purchases of oil from Iraq, the price of oil has increased sharply and that should help the Soviet Union with its export earnings. If the higher prices are sustained that should increase their earnings by about \$5 to \$6 billion a year.

Rubles to the Hard Currency Ruble

rubles to the hard-currency ruble

November 3, 1989	15.2
January 21, 1990	17.5
February 21, 1990	21
April 5, 1990	23
May 10, 1990	27
May 22, 1990	35.1
July, 19, 1990	41.2

According to the latest auction, rubles for hard currency that was selling in Moscow July 19th, the ruble to hard currency ruble rate fell to 41.2 rubles to the hard currency ruble. That is another 15% fall. It means that the ruble today is worth one third of what it was worth as recently as November 1989.

The Soviets have announced that as of August 1, 1990 it is now legal for Soviet citizens to own and use foreign currency inside the USSR. No questions are to be asked about possession. This is important step forward to convertibility as is the decision to allow any Soviet enterprise the right to bid for foreign currency in auctions. The second regulation goes into effect on January 1, 1991.

The danger with such rules however is that they are likely to drive the ruble to a fraction of its present official value and even the black market value. They will also serve

to reduce the ruble overhang. Now that there is something to buy, everyone will spend his or her rubles buying *valuta* .

The Russian Research Center Announces the First Two Corporate Sponsor Sessions of the Year

To begin the new academic year, the Russian Research Center in cooperation with the Cambridge East-West Consulting Group will sponsor a one day conference on Monday, October 1, 1990 entitled "Opportunities for High-Technology in the Soviet Union and Eastern Europe." Invitations are still out to several speakers including some from the Soviet Union, but the preliminary program with confirmed speakers is included with this newsletter. After an initial look at the overall economic situation, we expect to have separate panel discussions on computers, telecommunications, aerospace, and biotechnology. In addition we will have representatives from the government including the Under-Secretary for Export Administration at the Department of Commerce and a senior representative from the Department of State.

The Soviets have considerable interest despite their hard currency shortages in obtaining high technology and the US government recently has been liberalizing its export policies although for the most part most of the liberalization has effected Eastern Europe.

As usual our conference will take place at the Harvard Faculty Club at 20 Quincy in Harvard Square, Cambridge.

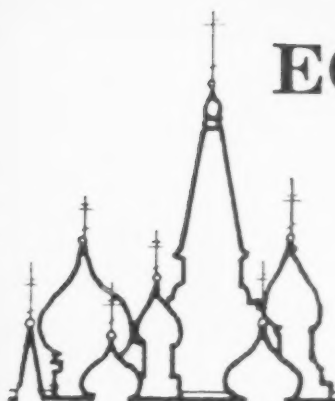
An enrollment form is included with this newsletter.

We also plan to hold a more general look at the Soviet economy and the political situation on October 22nd. That session is

4

primarily intended for journalists and is entitled "The Post Cold War Era: What Difference Does it Make?" This will include an examination of foreign policy, arms control, the economy, internal developments and a discussion of working conditions in the Soviet Union for journalists. In addition we have also extended invitations to the mayor of Odessa and the deputy mayor of Moscow.

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ECONOMIC NEWSLETTER

Russian Research Center

Harvard University

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SOVIET BALANCE OF TRADE WITH EASTERN EUROPE

Looking at Soviet trade with Eastern Europe, we can see just how serious the Soviet economic position has become. The trade deficit with Eastern Europe rose to over 4 billion rubles. That explains why the East Europeans, just like their Western counterparts, have ceased shipping to the Soviet Union. In particular imports into the Soviet Union from Hungary fell as they did from Czechoslovakia.

Traditionally the Soviets have had a trade surplus in their dealings with Eastern Europe. The deficit figure for 1989 is a record or close to it. This also explains why the Soviets are so eager to switch on January 1, 1991 to world prices and convertible currencies in their trade relations with Eastern Europe. The Soviets want to adopt world prices because they see themselves as subsidizing Eastern Europe because the prices they charge Eastern Europe for oil and gas are set substantially below world market prices. For the time being, however, it is the East Europeans who are owed money by the Soviets. That is why they are cutting back on their shipments to the Soviet Union. The announcement that the Soviets are cutting back all oil shipments by an additional 10% to 20% above and beyond the already announced cuts for January 1990 suggests that the trading relationship this year has been more contentious than usual.

THE RUSSIANS ARE NOT WILDLY ENTHUSIASTIC ABOUT PRIVATE FARMING

The Soviets have furnished some data on the number of family and private farms. As of April 1, 1990 there were 20,845 private farms in the Soviet Union. That is not exactly an enthusiastic response. What is even more striking, however, is the location of those farmers. The largest number is in the republic of Georgia where there are over twelve thousand, or more than half of the total. The next largest republic in terms of the number of farms is Latvia. Estonia has the third largest. Remember that Estonia has only about a million and half people and Latvia has two and half million. In contrast, in the Russian Republic there are only 240 farmers, despite the size and the number of people. The Ukraine has four family farmers and in Belorussia there are nine. That may all change in the future, but for the time being it suggests that the Slavs in particular are not wildly enthusiastic about the family farm as an institution. It is probably not going to be the main form of agriculture, at least in the Russian republic, for some years to come.

**NUMBER OF PRIVATE FARMS BY
UNION REPUBLIC AS OF
APRIL 1, 1990:**

USSR	20,845
RSFSR	240
Ukraine	4
Belorussia	9
Uzbekistan	857
Kazakhstan	46
Georgia	12,064
Azerbaidzhan	3
Lithuania	543
Moldavia	--
Latvia	5684
Kirghizia	--
Tadzhikistan	--
Armenia	2
Turkmenia	--
Estonia	1393

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(in million rubles)

Balance of Trade

MARSHALL I. GOLDMAN**Soviets' Mideast benefits**

Though most of the news coming out of the Middle East is discouraging, there are some positive aspects. Admittedly it is disappointing that the Arabs seem so reluctant to defend their own rights. But the reaction in the non-Arabic world to the Iraqi invasion of Kuwait is notable for its unanimity. This is probably the first time in the post-World War II era where almost everybody agrees on who the aggressor is and that it should be punished. It is not only unusual to see the United States and Western Europe in such agreement, but that their policies are also supported by the Chinese and the Soviets. In the past, regional upheavals similar to this one, particularly those in the Middle East, have become a spark for yet another Cold War encounter. Now the James Baker and Eduard Shevardnadze joint statement criticizing the Iraqi invasion is proof that the post-Cold War era may really be here.

There is no doubt that Mikhail Gorbachev is sincerely interested in avoiding superpower shouting matches. His earlier actions in cutting back Soviet military and economic aid in Nicaragua, Cambodia, Ethiopia and even Afghanistan are proof of that. He is striving to reduce the Soviet Union's military budget and reduce the size of his armed forces, and that can be done only if the Soviet Union and the West are smiling at one another.

Unlike most of the countries who will have to pay the penalty of higher oil prices for any punishment of Iraq, the Soviets stand to gain materially from what in the old days the Soviets would have called "a principled action."

Remember that the Soviet Union is the world's largest producer of oil as well as a major exporter. Recently the Soviet Union has encountered serious balance-of-payment problems that have led it to sell some of its gold and diamonds — something it usually tries to avoid. In part these

ports have fallen by about 12 percent. The drop in oil exports in turn is a consequence of the drop in oil output, which declined 5 percent during the first six months of 1990. That drop has been caused by the increasing disintegration of the Soviet economy.

What could be better for the Soviet Union than a blockade of Iraq and its oil exports and the rise in the world price of oil. A 20 percent increase in the oil price could mean a \$5 billion or \$6 billion boost to the Soviet Union's hard-currency earnings. That is not equal to the record \$7 billion trade deficit it incurred last year, but if the Soviets had earned that much extra, they most likely would have been able to pay most of the \$3 billion in foreign bills that they have defaulted on. Never in the post-World War II era has the Soviet Union been so far in arrears. It even has a record trade deficit with what used to be the members of the East European bloc.

Though the Soviets have much to gain by joining the United States, there are some costs. Iraq has been one of the Soviet Union's largest purchasers of military equipment. The Iraqis have been paying for this by making oil available in the Soviet Union. Last year that amounted to about \$1½ billion. The ban on arms sales to Iraq will also be disruptive to Soviet arms manufacturers, who are already having problems meeting Gorbachev's call for reduced production of arms.

Perhaps it is churlish to calculate the profit and loss from the Soviet Union's new foreign policy. The Soviets properly deserve our applause; it is useful to remember, however, that there are some, especially in the Soviet Ministry of Finance, who are looking forward not only to the new principles but also to an enriched bank account. By doing good, they also expect to do well.

Marshall I. Goldman is a professor of Soviet economics at Wellesley Col-

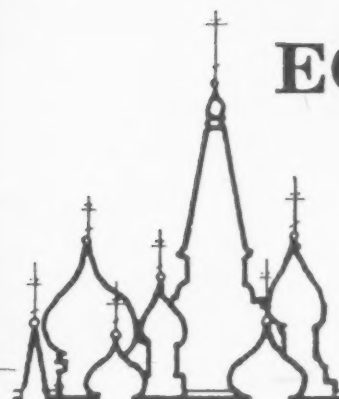
ECONOMIC NEWSLETTER

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Inflation

The Soviets are now releasing some figures giving some measure of inflation. The figures are suspect because it is hard to measure inflation when there are no goods in the shops. Nonetheless according to one estimate, prices rose on the collective farm markets by 18.2% during the first half of 1990 over the first half of 1989. The prices in the state stores rose by less than three percent. However very often the state stores lack goods to sell. Similar reports suggest that the prices of cooperative stores rose by only four percent. The collective farm market prices however seem to be the more realistic ones.

This increase in prices is also reflected in some figures reported about the sale of certain hard to find consumer goods. They were offered at an official auction during the first four months of 1990. Thus a VCR which normally is supposed to sell for three thousand rubles was selling for 6.4 thousand at auction. The automobile, the Moskvich, which is officially sold at 10.2 thousand rubles brought a price of 53.9 thousand "or 5.3 times higher than officially suggested." Others Soviet cars brought a similar premium.

The accompanying table shows that wages have gone up significantly over the last several years. This of course has helped to fuel the inflation and in turn is a reflection of the inflation. Thus the number of workers receiving more than three hundred rubles a month has doubled since 1981. The number

of workers receiving 250-300 rubles has also doubled.

Monthly salary of workers and employees in rubles: including overtime (not including part time workers and apprentices)

	March 1981	March 1986	1989
less than 80	6.3	4.8	2.7
80-100	13.5	11.2	7.2
100,01-120	12.2	10.2	9.2
120,01-140	12.4	10.9	9.3
140,01-160	11.6	11.3	9.9
160,01-200	19.0	18.2	17.4
200,01-250	12.4	15.1	16.7
250,01-300	5.5	7.6	11.0
higher than 300	6.1	9.5	15.4

The Soviets have also published some figures which show why there were shortages of cigarettes. Sales of cigarettes rose significantly, particularly in 1989. Some Soviet authorities attribute this to the shortage of vodka. In the absence of vodka more people smoke. In the process, the inventories of cigarettes fell dramatically, particularly beginning in 1988. The Soviets report that as of August of 1990, only 39 out of the fifty cigarette factories were operating. As the shortage intensified, packages of cigarettes were selling for 2-3 rubles for the cheaper brands, and fancier brands were selling for as much as 15 rubles a package. See diagram on page 4.

The Soviets have also provided us with

some interesting information about their telephone network. As the following table indicates, as of the end of 1989, there were twenty-five million telephones in Soviet households. Not surprisingly of that number, 21.6 million were in urban residences and only 3 and a half million were in rural areas.

On a per capita basis, that meant there were eighty seven phones per thousand people. In the urban areas there were 114 phones per thousand or slightly over eleven percent and in the rural areas, about 36 phones per thousand, or about four percent. On a family basis, at the end of 1989, there were 36.6 phones per hundred families and 12.8 phones in rural families.

The number of urban phones per family is still quite low. That made suspect some of the public opinion polls which rely on telephone interviews. There have been several such polls which give surprising results, including one which showed that the Soviet population has the same attitude towards the market as the American public. In both case the surveys were conducted by telephone. That brings to mind the ill-fated presidential election polling of the 1930's, which predicted that Landon would be elected president. The polls relied on telephone surveys, when indeed only a small percentage of the American population then had telephones. See table on page 4.

Statistics show Soviet Union in an Economic Depression

The United States is not the only country beset by a recession. The Soviet Union has come to acknowledge that it too is facing a significant decline in production. The Soviets have not seen fit to release the full details of their six month production. However they have provided us with some information. The accompanying table provides us with data in broad terms. However since much of it is contained in retail prices it is suspect. Thus

the fact that production of consumer goods at retail prices rose 7% suggests that actually production of consumer goods fell because of inflation which as we indicate elsewhere probably exceeded 10%. What is significant is that even under their definitions, the volume of industrial output fell by .6%. Equally important is that monetary income went up 13% although everyone agrees that the availability of consumer goods is less than before. It is also significant that shipments fell by 5% and that housing construction fell by 6%.

The Soviets have released other information as well. They say that national income fell by 2% and labor productivity fell by 1.5%.

In terms of specific goods, one of the most interesting figures is that oil production is down 15 million tons in the first half of 1990 compared to 1989. That means that oil production was 289 million tons compared to 304 million tons the year earlier. What is significant about that is that the rate of decline seems to be increasing. That represents a 5% decline for the first six months of 1990 compared with only a 4% decline during the first quarter. A subsequent report for the month of August indicates that output dropped another 2 million tons. At the present rate, this would mean that oil production for 1990 will total approximately 570 million tons. That is the lowest figure since 1978 and represents approximately 11 1/2 million barrels a day. That contrasts with the highest level of production of 624 million tons in 1977 and 1988 which was 12 1/2 million barrels a day.

Finally some good news. According to the current hard currency auction conducted on August 31, the value of the foreign ruble remained the same as it had on July 19th. That was 41.2 domestic rubles to 1 so called foreign rubles. That means that one dollar is worth twenty three rubles.

Journalist Conference

The Russian Research Center presents its annual conference orientation for journalists. As the accompanying program indicates, there will be a general review of current developments in the Soviet Union. We hope to add a speaker from the Soviet Union representing the Research Institute of Gosplan, or Gosplan itself. We will know more about that just before the conference.

FOREIGN EXCHANGE RATES

as of September 12, 1990

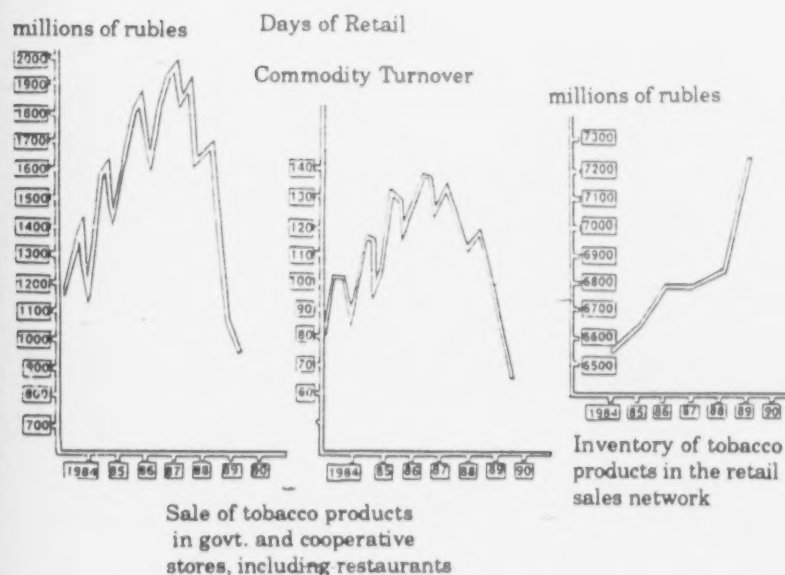
Quoted in rubles

	Official Rate
£100 Sterling	107.16
100 Aust. Sch.	5.14
100 D. Marks	36.28
100 D. Guilders	32.09
100 U.S. Dollars	56.92
100 Fr. Francs	10.81
1,000 Jap. ¥	4.09
10,000 It. Lire	4.85
100 Swiss Frs.	43.58
100 Nor. Kroner	9.36
1,000 Bel. Frs.	17.60
100 Sw. Kronor	9.85

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NUMBER OF HOME TELEPHONES AT THE END OF 1989

Telephones:	Number of telephone sets, in 1000s			Percentage of telephones per 1000 people		
	Total	urban	rural	Total	urban	rural
USSR	25137	21617	3520	87.4	114.1	35.9
RSFSR	10851	9248	1603	78.2	92.6	41.2
Ukraine	4718	4180	538	91.5	120.9	31.7
Belorussia	1105	926	179	108.2	136.9	51.9
Uzbekistan	1002	809	193	49.5	98.5	16.1
Kazakhstan	1254	972	282	75.5	102.1	39.7
Georgia	428	336	92	79.1	111.6	38.2
Azerbaijan	486	381	105	68.3	98.8	32.2
Lithuania	547	445	102	147.4	176.1	86.1
Moldavia	311	240	71	71.2	116.8	30.6
Latvia	468	371	97	175.0	195.8	124.3
Kirghizia	206	160	46	47.5	96.9	17.2
Tadzhikistan	164	139	25	31.2	82.6	7.0
Armenia	457	344	113	138.2	153.2	106.5
Turkmenia	167	139	28	46.4	85.8	14.1
Estonia	216	170	46	136.8	150.5	102.6



The USSR Goskomstat (State Committee for Statistics) has summed up the results of the USSR's socioeconomic development in January-July 1990. We publish below a table of the main indicators:

	Actual figures January-July in billions of rubles	
	1990 (at actual prices)	1990 as percentage of 1989 (at comparable prices)
Volume of industrial output (operations, services)	523	99.4
Production of consumer goods (retail prices)	258.8	107
of which food goods	80.0	101.6
of which alcoholic beverages	32.3	111.2
of which nonfood goods	146.5	109.3
of which light industry goods	57.2	102.7
Purchases of livestock products in million tonnes:		
livestock and poultry	12.0	98
milk	49.0	103
Total housing commissioned from state capital investments, million square meters	32.8	94
Shipments (dispatch) of freight by public-use transport, billion tonnes	7.2	95
Retail trade turnover	259.1	112.0
Paid services	40.8	105.0
Population's monetary income (actual figures)	353.0	113.2